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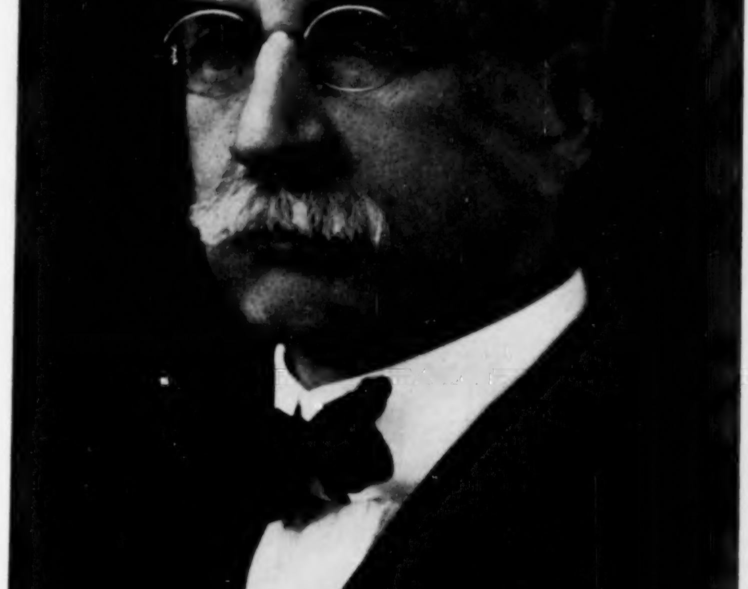

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OBSERVATIONS ON THE OPERATIONS OF THE NATIONAL WAR LABOR BOARD

By DEXTER MERRIAM KEEZER*

The following observations on the operations of the National War Labor Board deal both with its basic accomplishments in coping with labor disputes and stabilizing wages, and with some of the more striking manifestations of its behavior as a tripartite agency of government, with membership representing the public, organized labor and employers. That the issue of whether or not an agency designed to deal with labor disputes on behalf of the federal government should have a tripartite membership will continue to have vitality is suggested by the fact that, in passing the Labor Disputes act of 1946, popularly called the Case bill, the House of Representatives provided for the creation of a Labor-Management Mediation Board, with a three-way membership patterned on that of the War Labor Board.

Since my observations on the behavior of the National War Labor Board were made at close range, they tend to emphasize the pulling and pushing in which the conflicting elements composing its tripartite membership were more or less continuously engaged. This pressure performance, while more entertaining, was less important than the Board's basic accomplishment in carrying out its dual assignment to settle labor disputes and stabilize wages, and should be viewed accordingly.

Toward the end of a visit to the National War Labor Board, a friend of mine from England who had been privileged to attend a session of the Board and had been considerably shaken by the experience, inquired, "Was I being had on when I was told that your Board is just like the United States Supreme Court, that it makes decisions from which there is no appeal?" When I assured him that it made such decisions, he exclaimed, "Then I say! Why don't you behave like the United States Supreme Court?"

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My friend had reference to the socially rugged manner in which the Board conducted its business. As I recall it, no threats of physical violence were visited on any of the members during the session he attended. In fact, in my experience as a Public member of the Board, which extended over a year and a half, it was only on very rare occasions that it was proposed to "Come outside and finish this!" But it was commonplace to have charges ranging from those of deceitfulness, venality, and vulgar avarice to the relatively mild accusation that one was being willfully and stubbornly obtuse tossed around the Board and accented by shouting and table pounding. It was even more commonplace to have several members of the Board talking at the same time, perhaps in a series of independent parleys cutting across the main thread of discussion.

Why the Board acted in this forthright fashion seemed to be accounted for in part by what have become almost the conventions of deportment in handling labor relations in the United States. These seem to call for a notably robust line of verbiage, compounded on readily found occasions with mutual abuse by the participants. However, unless the abuse is piled on to a depth and with a persistence that unmistakably indicates that it is sincere, it also seems to be conventional to take it and deliver it with a considerable degree of personal detachment. Indeed, it was not unusual for a member of the War Labor Board to characterize one of his colleagues as bountifully endowed with a large variety of despicable human qualities, and then add blandly, "Nothing personal of course."

A few years ago failure on my part to understand that a comprehensive cussing of each other by the parties to it may merely be a conventional manifestation of virility in handling a labor dispute, led me into a consequential error. At the time I was acting as referee for a division of the National Railroad Adjustment Board which, in addition to the referee, included five representatives of employers and five representatives of the workers. One of my colleagues, a great hulk of a man, kept threatening, it seemed to me very earnestly, to throw another of them out of the window, which happened to be twenty-two stories above the ground. I found this such an alarming prospect that I refused to continue the proceedings until I was spared the thought of having my associate hurtling through space to the pavement below. I had my way, but at the conclusion of my tour of duty as referee, the member to whose threats I had objected advertised me throughout the Northwest, where I was then living, as the most unfair man with whom it had ever been his misfortune to be associated. I am sure he was motivated in considerable part by a feeling that I had unreasonably cramped his style by refusing to permit him to present his case with

what he regarded as an appropriate degree of vigor. If I had had a tour of duty on the National War Labor Board at the time, I would have been more understanding.

A root cause of the two or more fisted character of the War Labor Board proceedings was, of course, the abiding fact that there are very few, if any, generally respected principles or standards to which to appeal in establishing wages and working conditions. Within the limits of paralyzing bankruptcy on one side and conditions which workers find intolerable on the other, there is a sort of scientific no man's land in which the general absence of controlling economic signposts encourages resort to bluster as a means of trying to prevail.

Use of this technique was also encouraged by the tripartite membership of the War Labor Board, with members appointed to represent wage workers, employers and the public. In accounting for the contrast in deportment which he had noted, I explained to my British friend that if, having argued their cases before the United States Supreme Court, the opposing lawyers were not only invited to join the Justices in discussing how the cases should be decided but between them given twice as many votes as the Court holds, it is at least doubtful if the Court would long be able to maintain a plausible semblance of serenity, even with the aid of black robes and the austere white pile which is the seat of its operations.

A "full Board," which it was customary to convene to consider matters of major importance, consisted of twelve members, four on a side. However, a division of the Board composed of two members on a side had full power to act, and occasionally each side was represented by a single individual appropriately equipped with proxies. This was less often true of the labor side than of the others for, while the Labor members were appointed as representatives of workers in general, the labor membership was divided between representatives chosen from the American Federation of Labor and the Congress of Industrial Organizations, and they generally wished to be present when cases involving their respective organizations were acted upon. Eight Public members, all Presidential appointees, devoted their full time to the work of the Board. In addition to four regular and four alternate Labor and Industry members, appointed by the President, these groups each had about a dozen substitute members of their own choosing who, with the approval of the Board, had full power to act. This membership arrangement made it possible to have several War Labor Boards in session simultaneously, as was frequently the case.

The business of the Board consisted of carrying out two assignments which were given to it separately, but which were often inextricably

linked. One for which the Board was created by the Executive Order of the President in January, 1942, and continued by the War Disputes act of June, 1943, was to settle labor disputes which threatened to interfere with the successful prosecution of the war. The other assignment, which came originally from Congress in October, 1942, and which it carried out under the general direction of the Director of Economic Stabilization, was "to stabilize wages so far as practicable . . . on the basis which existed on September 15, 1942."

Business got to the Board, which had under its jurisdiction the wages and working conditions of about 25 million wage workers, in two general ways. One was in the form of disputes certified to it by the Secretary of Labor, whose certification stated that they ". . . may lead to substantial interference with the war effort. . . ." The other main line of business of the Board originated in applications for approval of changes in the compensation of wage workers, which was sought to make sure the changes were in accord with the national wage stabilization program.

The disputes certified to the War Labor Board ranged all the way from those involving general increases in wages and far-reaching changes in working conditions for hundreds of thousands of employees to those involving what at first glance might seem to be remarkably trivial grievances of single individuals. The superficial magnitude of a grievance, however, is no guide to its actual importance in disrupting labor relations. This fact was driven home to me a few years ago when, while working to avert a threatened strike of the employees of a large inter-urban electric railroad, I found that perhaps the most menacing issue was that of whether or not the members of the train crews were to be allowed to take off their coats during hot weather. Representatives of the management intimated that they might get together with the workers on changes in wages and hours of labor involving the increased expenditure of millions of dollars annually, but on the shirt-sleeve issue, never! When the workers remained adamant on what struck me as their reasonable demand not to be required to swelter in the summertime, it finally developed that the general manager of the railroad was confident that if the members of the train crews were allowed to take off their coats in the summer, the next thing they would want to do would be to roll up their sleeves. He said in no uncertain terms that he would rather see the line stop operating than tolerate such an affront to what he regarded as respectable railroading.

Similarly, while seemingly very trivial, the issue of whether or not a physician's certificate that a particular worker's absence from work was due to illness should be held by the worker or the company—a case actually certified to the War Labor Board—may touch hidden

springs of passion which make it a matter of first-rate importance. Sometimes it is fairly obvious that a superficially trivial issue has relatively important ramifications. This was true, for example, of a dispute certified to the Board on the issue of whether a particular group of workers should be classified as working in the mouton industry or the leather and tanning industry. No doubt variations in the permissible rates of pay depended upon the classification approved. Likewise, when the head of a union precipitated a dispute which reached the War Labor Board by refusing to bargain with an employers' association, his principal complaint was that the representative of the employers' association persisted in mispronouncing his name in a peculiarly annoying way; but it was a safe bet that more than hurt feelings were involved. No doubt bargaining with the individual companies grouped in the association seemed to the union a more promising way of attaining its objectives than bargaining with the association. Incidentally, the case was complicated by the fact that the representative of the employers' association said the union leader persisted in mispronouncing his name, too, but he was inclined to be more tolerant of this social negligence.

Because the Board accepted for settlement such a large volume and variety of issues, it was more or less continuously taxed by its Labor and Industry members, often in the wake of an unpalatable decision, with scuttling the processes of collective bargaining. There was inevitably much truth in this contention. The very fact that the Board was available to act as final arbiter of labor disputes discouraged collective bargaining. Such bargaining was also further discouraged at times by the fact that the Board accepted some disputes before the parties had much more than met each other and a few before they had even done that.

It is possible, however, to exaggerate the deleterious effects of the Board's operations on collective bargaining as a whole. This is indicated by the fact that there was a great increase in both the number and scope of collective bargaining agreements during the period of its existence. In 1940 about 30 per cent of our industrial workers were covered by collective bargaining agreements. By 1944 about 45 per cent of a much larger working force was covered. Sometimes what seemed to be happening was not that the process of collective bargaining was being scuttled, but that the process, or at least part of it, was being transferred to Washington where, when great national cases were being decided by the Board, representatives of the employers and workers swarmed and bargained all over the place, sometimes with the benefit of Board members, sometimes in last minute efforts to avoid their ministrations.

Both because of its membership in the mass production industries and by design, the CIO specialized in putting together great national cases involving major changes in working conditions for hundreds of thousands of employees. By an historic *tour de force* its Steelworkers managed to consolidate in a single proceeding 86 cases directly involving all of the major steel producing companies in the country and over 400,000 production employees. It took no special design, however, to bring over 325,000 workers into a single General Motors Corporation case because the labor relations of 115 of its plants in all parts of the country are governed by a single master agreement with the United Automobile Workers, CIO.

When a case involving a dispute was accepted by the Board, a decision always made in Washington, it might travel any one of a variety of routes to final settlement. The Board maintained twelve Regional War Labor Boards which blanketed the country with their geographical jurisdictions and half a dozen special industry Commissions to handle cases originating in industries such as shipbuilding, motor trucking, and newspaper publishing. If a dispute case was referred to one of these agencies, which had power to act for the Board, it had about a two to one chance of being finally settled by one of them. It was possible, however, for either party to appeal to the National Board from a Regional Board or Commission decision, and though the grounds for appeal were rather narrow, approximately one-third of the total of the dispute cases decided by the Regional Boards and Commissions in 1944 were appealed.

Like the National Board, the Regional Boards and Commissions were set up on a tripartite basis and appeals from them to the National Board were filtered through a national Appeals Committee which, after giving them another tripartite going over, made recommendations to the National Board about what to do with the issues involved. With the aid of standing national panels, which made recommendations to it, the National Board acted directly on cases originating in a number of industries including shipping by water and airframe manufacture. It proceeded in the same way in handling cases cutting across regional lines, sometimes receiving major national cases directly from special panels but usually after they had been filtered through a tripartite staff Review Committee. Voluntary applications for approval of changes in wages were first filed in the local offices of the Wage and Hours Division of the Department of Labor where applications not requiring approval were sifted. Those requiring approval, which in 1944 reached the rather staggering total of 191,000, then went to the Regional War Labor Boards and Commissions. If the application was

denied by them, an appeal could then be made to the National Board which also acted originally on some applications which were inter-regional in scope.

By these various routes the National Board in the later months of its existence had flooding in upon it for final decision a monthly average of almost 600 cases, about two-thirds of which involved disputes and the balance voluntary applications for approval of wage adjustments. About 400 of them called for review on appeal and the balance for original action by the Board. In dealing with this flood of cases the Board turned out an average of over 100 decisions a week, all of them after each case had been worked over at least once, and usually several times, by tripartite groups representing workers, employers, and the public and almost always for the Labor and Industry members had parted company completely on the important issues, with the Public members casting the deciding votes.

Once the War Labor Board had decided to issue what it redundantly called a Directive Order, the three sides generally stuck together on the proposition that it should be obeyed, regardless of what they may have thought of it in the first place. Thus, the Industry members voted to take the step which resulted in the Army's occupation of some Montgomery Ward establishments, even though the order in question, which the company refused to obey, contained provisions which they had strenuously opposed. Likewise, it was only rarely that the Labor members refused to vote to utilize all of the powers available to the Board to enforce its orders, even though they were orders which they had bitterly opposed as adverse to the interests of the workers involved. In thus rising above partisanship they, and the Industry members, frequently sacrificed popularity and perhaps sometimes prestige as leaders of the groups they represented on the Board. In dealing with broad questions of policy as well as with the recurring crises in the career of the Board, the Industry and Labor members also frequently acted and spoke with concern for the enterprise as a whole.

In the process of deciding cases, however, the Labor and Industry members generally hewed strictly to the line of partisanship. With individual and fleeting exceptions, their general attitude was perhaps typified by a remark which a Labor member, who was also the head of a national union, made to a Public member to whom he was complaining about the Board's decisions on certain issues in the case in which he was particularly interested. When the Public member insisted that the Labor member was being fairly treated, he retorted, "We don't merely want a fair decision; we want a favorable decision." He reflected a common attitude on the part of both Labor and Industry members.

The wholehearted pursuit of victory rather than truth resulted in the use of quite a collection of histrionic tricks by the Labor and Industry members which were designed to sway the votes of the Public members in one direction or the other. One was to feign great indignation that the Board should fritter away its precious time with further bootless discussion when the discussion seemed to be opening up the possibility that, if continued, the decision which had seemed safe for their side might go the other way. A variant of this technique was for the side which wanted to hurry its victory to start recording its vote by calling and sometimes almost chanting "aye" or "no" while the discussion of the case was still going on. Another was to belittle the knowledge or good sense, or both, of authorities cited in opposition to their position. Still another was to pretend a passionate devotion to strict adherence to the Board's rules of procedure when there was advantage in doing so, and to write the rules off petulantly as the handiwork of pecksniffian bureaucrats when it worked the other way.

Certain Industry members made it a standard practice to indicate at the outset of the sessions in which they participated that it was, of course, preposterous to suspect that any employer was going to get an even break from a New Deal outfit like the War Labor Board, the design apparently being to get the Public members to lean over backwards to avoid paying out on the charge. Some of the Labor members also worked much the same system in reverse by quite explicitly deploring the bias, at least on the part of certain Public members, against the modest aspirations of their clients. There is little reason to believe that these as well as many more similar devices to win friends and influence Public members, most of them variants of the theme that "We wuz robbed" or surely are about to be, had much if any effect on the course of War Labor Board decisions. They simply added in their peculiar way to the strangely murky atmosphere in which the Board often operated.

In mastering the art of catch-as-catch-can debate at close quarters, most of the Labor members of the Board had a long head start on their colleagues. They had not only had to think but to talk themselves to their places in leadership in the labor movement and through tough competition. Among the Industry members, however, they found such apt pupils that even though most of the Industry members rotated between their places on the Board and posts in industry and thus were less steadily on the job than their Labor confrères, there was toward the end of the Board's career no consistent preponderance of skill on either side in the application of the peculiar arts of argumentation and obfuscation involved.

On both sides, of course, there were marked differences in the indi-

vidual techniques used in arguing cases. Some Labor and Industry members operated more or less in the manner of heavy tanks plowing ahead doggedly and relentlessly while others skipped back and forth over the ground with a speed and skill suggestive of the best broken field runners in football. But, however tricky their maneuvers, none of them lost sight of their objective, which was almost invariably to win the case. And, with few individual exceptions, if that involved letting the Public members vote under a misconception of the issue or its significance, or perhaps even fostering the misconception a little—well, it was up to the Public members to look out for themselves.

As the abuse which was so freely dispensed about the Board involved relatively little personal rancor either on the delivering or receiving end, so the disingenuous manner in which the Labor and Industry members sometimes conducted themselves was no reflection of their personal integrity which, I am sure, was uniformly above reproach. On the War Labor Board theirs was usually a personally detached and almost professionalized rôle of advocacy of which the objective was to win. While, I am told, there is nothing new about the performance of such a rôle in the field of labor relations, it was relatively novel, as well as notable, to have it carried on not merely under the aegis of the government of the United States but also by officials in the person of Labor and Industry members carrying commissions from the President of the United States. The code authorities invented a decade ago by the National Recovery Administration foreshadowed in some measure such a setup but were by no means so comprehensively tripartite. The Industry and Labor members of the War Labor Board first acted as advocates using all the tricks of the trade and inventing new ones from time to time. Then they presumably switched to the rôle of judge, to pass upon the validity of their own arguments; and combined they had, as judges, twice as many votes as the Public members. In such a setup, the security of the public interest, of course, rested largely on the fact that the Industry and Labor members were chronically disagreed about what would serve it. This almost always left it to the Public members to settle the question, though in a few cases, usually involving voluntary applications for wage increases, the Industry and Labor members gleefully got together and overrode the Public members. If, however, an Industry or Labor member had shown consistent symptoms of abandoning his partisanship and acting judicially, he would surely have seemed to his associates on his side of the Board to be losing his grip on his job.

Even though the judicial rôle of the Industry and Labor members was largely a fiction, there were important and, I believe, decisive

public advantages in the tripartite setup of the War Labor Board, both as an agency to settle wartime labor disputes and to administer the national wage stabilization program. It is axiomatic that the true inwardness of a labor dispute often bears little or no relationship to what is being proclaimed about it—a fact which makes it possible to have a complete documentary record of the dispute and still have no idea of what it is really about. Their Labor and Industry colleagues could and did give the Public members crucially important help in overcoming this difficulty by letting them know, in those rather subtle ways developed by people who work closely and continuously together, the real significance of the dispute involved and what would suffice, if not be satisfactory, as a remedy. Thus, though it was decidedly not one of adding judicial strength to the Board, the tripartite composition did add much to its capacity to deal effectively with labor disputes.

Also the tripartite setup, in my opinion, made a crucially important contribution to wartime wage stabilization. Since the Labor members consistently voted for wage increases, no matter how completely they conflicted with the wage stabilization program, it may seem ridiculous to contend that their participation was essential to the success of a Board administering the wage stabilization program. If, however, organized labor had had no share in the administration of the program and hence no responsibility for it, there might well have been no program at all. In the interest of getting more pay immediately which many organized workers unquestionably could have done, the leaders of organized labor might well have decided to try to do away with the wage stabilization program and take their chances on the runaway inflation against which the program was designed to guard. And they might well have succeeded, too. Consequently, labor membership on the Board was probably a *sine qua non* of any wage stabilization program at all, and a public benefaction as such.

The tripartite composition of the Board also seemed to me to give it a certain amount of immunity from political attack which added to its effectiveness in getting ahead with what was frequently its inflammatory job. Quite a lot of the unpopular business of the Office of Price Administration was initiated by wage adjustments authorized by the War Labor Board. To attack the Board for this, however, would have involved direct conflict with representatives of the nation's most formidable labor organizations. It was safer to lambast OPA which had no such political armor—a fact reflected, I believe, in the relative volumes of political abuse dispensed to these two associated agencies. While the War Labor Board certainly had no political glamour, it came off relatively unscathed in the halls of Congress, not by accident, but in considerable measure by virtue of its tripartite composition. This same

composition extended to hundreds of tripartite committees and panels set up by the Board throughout the land to deal with specific cases. These agencies provided their membership with a source of both power and income which may stimulate a considerable interest in the continuation of a tripartite setup for dealing with disputes over wages and working conditions.

The partisan pounding to which the Public members were subjected might have been of no particular consequence if they had had the time and materials with which to study carefully the cases presented to them. Such study was usually given to major policy-shaping cases, but in dealing with run-of-mine cases the Public members rarely had time even to glance at the record before such cases were put up to them for decision. If it was a case appealed from a Regional Board or Industry Commission, the record frequently contained no explanation whatsoever of why the Board or Commission decided the case as it did, leaving it to the National Board to try to guess the answer from the conflicting contentions of the embattled parties.

There may well have been safety in numbers, however. To keep anywhere near on top of the tremendous load of work which was piled in upon it, the Board was required to decide so many cases that the errors due to high speed consideration may have balanced out. Also, solace of a grim sort can be found in the fact that deciding labor disputes is such a crude business, in terms of the handling of the issues with scientific precision, that there is no certainty of decisive loss when it must be conducted in a relatively offhand manner. Those who crave industrial peace and tranquility must find it a frightening fact that almost everything talked about in settling a labor dispute lies in the field of controversy. But given that state of affairs, it may be that the best thing to do is to fence off a ring for the contestants in labor disputes, as a tripartite setup such as that of the War Labor Board tends to do, and hope that they will stay within its confines in struggling toward a composition of their differences.

For all three sides of the Board, one of the completely unsolved problems remained that of imparting to its tripartite machinery a modicum of administrative efficiency. At its best a Board is a cumbersome administrative instrument. When it is divided into three parts, two of which conceive their interests on many issues to be diametrically opposed, it often becomes superlatively inefficient. The two sides pull and tug while the business of the Board is stalled in the middle. To aggravate the inefficiency inherent in its tripartite setup was, of course, the fact that the business of getting the Board's scheduled work done was continuously being interrupted by new crops of crises demanding immediate attention.

It was suggested, of course, that administrative inefficiency might be a constructive quality in an agency engaged, as the War Labor Board was, in administering a wartime wage stabilization program since, in its own way, such inefficiency served a basic purpose of the program to put brakes on the granting of wage increases. However, if any gain was made for wage stabilization in this perverse way, which is dubious, it was made at the expense of increasing the dangerously explosive character of the labor disputes referred to the Board. Consequently, as a general proposition all three sides of the Board not only deplored its administrative inefficiency, but struggled to overcome it by hard work. There still remained the ironic fact, however, that the harder the Labor and Industry members worked at their partisan designs, the less might finally get done. In spite of this remarkably self-defeating administrative quality of a tripartite setup, the Board, by dint of long hours and multiple shifts, somehow managed to get through an enormous quantity of work, with the aid of an extraordinarily diligent and competent staff.

Along with the problem of making the Board operate efficiently, neither workers nor employers fully solved the problem of securing completely effective representation on it. One of the complications which confronted employers can be illustrated by a case involving the salmon packing industry of Bristol Bay which is above the Arctic Circle, some 2,000 nautical miles north of Seattle. The local Indians who worked in the fisheries and canneries during the packing season were organized by the CIO and, consequently, the CIO members of the National War Labor Board had a direct interest in their local union. When, however, a particularly tortuous dispute involving these Indians came to the Board, it fell to the lot of an Industry member from an oil company which has the geographic center of its operations deep in the heart of Texas to take the lead in representing the employers. In order to do an effective job, which he did, it was necessary for him to apply himself ardently to the problems of an industry about as remote technically and geographically from his own as it is possible to get. Not all the Industry members had such adaptability. Some of the Industry members also had difficulty in getting over the habit, or in persuading their clients to get over the habit, of thinking that decisions should be weighed primarily by reference to the immediate cost and without regard to long-range and wide-range ramifications which were often imposing. Indeed, the attitude of some of them was reminiscent of the man who, after a native had darted out of the Cuban jungle and taken a pass at him with a bolo knife, cheerfully remarked, "He missed me!" "Wait 'til you swallow," his more experienced companion ominously replied.

While the Labor members of the Board presumably represented all of the workers subject to its jurisdiction, organized and unorganized alike, they came to be selected exclusively and in equal proportions from the ranks of the CIO and the AFL. This left without direct representation on the Board about half the workers subject to its jurisdiction. These included not merely millions of unorganized workers, but some 1,750,000 workers organized in "independent unions," *i.e.*, unions not affiliated with the CIO and the AFL, including national groups of such formidable proportions as the United Mine Workers of America. The independent unions had representatives on various Board committees but not on the Board itself.

The Labor members of the Board would vehemently protest any intimation that, afforded the occasion, they were less ardent advocates for independent unions and unorganized workers than they were for the organizations from which they were chosen, and they would be entirely sincere about it, too. Also, they would be able to document their protest not merely by citing a large output of militant rhetoric on behalf of independent unions and unorganized workers, but by masses of statistics showing that the members of the organizations represented directly on the Board fared no better at its hands in the matter of wage increases than did the members of independent unions and those unorganized workers whose cases occasionally got before the Board through voluntary applications of employees for approval of wage changes.

Figures of this kind, however, leave quite a bit to be desired. For example, they may show that large numbers of unorganized workers who started from a low wage base did far better relatively in wage increases during the war than those grouped in the most powerful unions. As an indication of how they fared, however, there is something wrong with this picture. Also, wage statistics do not reflect what may be very valuable benefits to workers in the form of improved working conditions, which might be ordered by the War Labor Board for those who had the requisite organized strength to get their demands to the Board. That white collar workers by and large did not have such strength was one of the most consequential facts about our wartime economic setup.

Likewise, as an indication of how workers actually fared before the Board, the wordage put into the record on behalf of workers not directly represented on the Board shares the general weakness of documentary records in the field of labor relations. There was obviously vastly more to pressing a case to a successful conclusion, particularly through the sticky administrative entanglements of the War Labor Board, than arguing the case strenuously in the Board. But how the

effectiveness of performance in this line is to be accurately measured I have no idea. It is my impression that it was a decided advantage to workers to have direct representation on the Board, but I am aware that I would have a hard time proving conclusively that this impression is correct. At any rate, that CIO and AFL members did not regard each other as equally well qualified to handle all cases is attested by the fact that CIO members consistently declined to represent labor in consequential AFL cases, and vice versa. This practice hardly supports the proposition that the affiliations of the Labor members made no difference in their work as advocates of the labor side.

The validity of this proposition was also violently fractured from time to time when jurisdictional disputes between the AFL and CIO got before the Board. Then the Industry members were likely to be privileged to sit by and watch a battle between Labor members which made their own customary conflict with the labor side seem positively anemic. I suppose that the primary reason for this vehemence is that union leaders regard an assault upon their jurisdiction by another union as a stab in the back or, at any rate, a stab in the side. While marveling at the heat poured into the jurisdictional rows between unions, however, it has also occurred to me that part of the explanation may be found in what seems to be the extraordinary degree of insecurity in the position of most labor leaders. If they lose their jobs, which may be jobs giving them great national power and prestige, I am told they are likely to have a lot of trouble in finding any landing place until they get all the way back to the factory benches or crafts from which they started. It is my impression that the paucity of economic cushions for deposed labor leaders has something to do with the ferocity with which they resist what looks like encroachment upon their domains.

Occasionally a union leader lands on an occupational cushion provided by a job calling for work in the field of labor relations on behalf of an employer or groups of employers. Offhand, this might seem to be a smart arrangement from the employer's point of view. I am sure it is often true, however, that when a union leader moves over to the employer's side of the industrial relations setup he leaves most of his usefulness to the employer in negotiations in this field behind him. Indeed, when I served as the man in the middle of a tripartite setup for settling labor disputes (not the War Labor Board) which had as an employer member a former union official, it was almost a ritualistic part of the proceedings for the labor members to counter anything their departed union colleague said by an excoriation of him as a turncoat. Consequently, if anything is going to be done by way of increasing the economic security of union leaders, it must be done by the unions themselves or the government. Since a tripartite arrangement such as

the War Labor Board tends to have that effect, it may be possible to claim as one of the advantages of such an arrangement some slight tendency to reduce the ferocity of jurisdictional disputes which promise to plague the post-war period.

With the organization of foremen and other supervisory employees in full-fledged unions, to which the National Labor Relations Board has recently given its blessing, the jurisdictional conflict between the AFL and CIO may attain new heights both in complexity and intensity. This possibility is suggested by a development at the Baldwin Locomotive Works at Eddystone, Pennsylvania, where the United Steelworkers, CIO, represent about 16,000 production workers and "working leaders," and the International Association of Machinists, AFL, represents the supervisory employees, about 500 in number. When the company—to take account of what it plausibly said were shifting production requirements—reclassified about 225 supervisory employees as "working leaders," its action had the effect of shifting them from the jurisdiction of the AFL Machinists to that of the CIO Steelworkers. The attendant explosion both locally and in the War Labor Board forecasts a new line of jurisdictional conflict which may well be extended in increasingly intricate patterns if the extension of union organization to foremen and other supervisory employees is upheld by the courts.

Of course, there is much more to the rivalry between the CIO and the AFL than the urge to get and hold members. There is conflict in basic objectives. While there was relatively little talk about such objectives around the War Labor Board, the performance of the AFL representatives made it clear that on the whole that organization is sticking to its basic ideal of business unionism and has as its ultimate purpose that of getting more pay for its members. If it is necessary to organize employers or even a community to do that, well and good, but that is an incident, not an objective.

A major segment of the CIO is obviously interested in organizing or reorganizing the economic scheme of things on a more equalitarian basis as at least an intermediate objective in itself. It realizes that at this juncture this is not going to be done by salaaming to the slogan "Keep the government out of business," but by getting the government into business on its side. Operating on this principle, it put together dispute cases for decision by the War Labor Board in which it made not merely conventional demands, such as those of more pay and less work, but demands against which the Industry members protested on the ground that they "usurp the prerogatives of management," as some of them would do, and no doubt were designed to do.

In piling wordage into the record condemning the shortcomings of

the War Labor Board, the CIO members yielded little or nothing to their AFL confrères. However, this is another of those manifold cases in the field of labor relations where the formal record does not reveal the real situation. This quite clearly was that the CIO representatives recognized the government as a resource in moving toward its objectives, and frequently sought to use it as such, while the dominant AFL leadership sincerely chafed under the restraints imposed by the Board. It uncomfortably accepted them during wartime but it was determined to unload them at the earliest post-war moment, and return to collective bargaining along traditional lines. The essential difference between the CIO and the AFL lambastings of their treatment by the War Labor Board was that the AFL almost always meant them. The fact that a large part of the CIO clearly had use for an agency like the War Labor Board in its business gives the work of the Board, including that of its tripartite paraphernalia, a significance extending beyond the war period which it otherwise might not have.

In spite of the numerous rivalries and antipathies of the organizations from which they came, the Labor members presented a united front on the vast preponderance of the issues that came before the Board. This was also true of the Industry members. In the course of considering a case they might differ among themselves; but when it came time to vote, they almost invariably lined up solidly on their side, leaving it to the Public members to do such individual dissenting as was done. Some of the Public members did quite a bit, sometimes recording in written opinions their reasons for disagreeing with their colleagues. Others did almost none at all, perhaps in deference to the view that Public members had trouble enough without risking more by disclosing rifts in their ranks. At any rate the pressures exerted both by the task at hand and the tripartite organization of the Board seemed to be such as to subdue individuality within the ranks of those lined up on the three sides. As a result, the danger of having the board persist in a mistaken course may have been considerably enhanced.

In dealing with most of the key issues which recurred continuously in cases coming to the Board, both the Labor and Industry sides came to take rigidly fixed positions. For example, the Labor members almost invariably voted for any wage increase regardless of whether or not it clearly conflicted with the prevailing wage stabilization policy of the Board and the government, of which they strenuously disapproved in its later wartime stages.[1] The Industry members even more invariably voted against orders designed to grant protection to unions, such as

[1] The observations on wage stabilization reported here do not cover the period after V-J Day.

those calling for maintenance of union membership as a condition of keeping a job. They did this in spite of the fixed policy of the Board to issue such orders under appropriate conditions. In dealing with some of the other issues before the Board, the Industry and Labor members were slightly less adamant but their positions remained firmly enough fixed so that it was possible to guess correctly at least 95 times out of 100 how they would vote on any given issue.

While, in sharp contrast to the Labor members, the Industry members almost always voted to uphold the Board's wage stabilization policy, they were quick to insist that this is not because of any deep admiration of this policy. Quite on the contrary, most of them expressed the general view that the Board's wage stabilization policy consisted of a complicated system of dodges and detours by which it was possible to grant a large variety of increases in pay for workers while seeming to "hold the line." While the Labor members ardently subscribed to the proposition that the Board's wage policy was tortuously complicated, they regarded these complications as akin to those of a system of barbed-wire entanglements, trenches, and pillboxes treacherously placed between the workers of the country and their attainment of their objective of increased wages.

Likewise, while they consistently voted for such provisions to protect unions as the Board dispensed, the Labor members were always quick to insist it was by way of making the best of a niggardly deal. In exchange for having given up the right to strike in wartime, they insisted that the organized workers of the land should be granted far more security for their unions against the assaults of predatory employers than the Board typically granted. The Industry members, of course, took precisely the opposite position and insisted that this was one of the more noxious ways by which the Board was turning the country over to the mercies of organized labor.

As is generally the case, the truth about the Board's handling of these key issues of wages and union security lay somewhere between the partisan extremes typically taken by the Industry and Labor members. If one's purpose were to show that its wartime wage stabilization program was a rubbery and slippery affair so far as holding the line on wages was concerned, that could be persuasively done by emphasizing the extent of the wage increases which its controlling policies made theoretically possible. For example, one could show that, by using all of the stretch in the wage stabilization program, it would have been possible during the life of the Board to double the rate of pay of some workers in the lower wage groups for doing the same work—raising it, say, from 40 to 80 cents per hour—and still comply fully with all of

the rules and regulations. To make such a demonstration, it would be necessary to unravel the intricacies of a complex of wage stabilization policies, having to do with such exotic matters as brackets, substandards, job evaluations, rate ranges, fringes, automatic as well as merit progressions, reclassifications, and intra-plant inequities. Not many people and not all union representatives knew how to do this, which of itself is a fact of great economic and social significance, but it could be done. In celebrating an anniversary of the establishment of the Board in song, a sophisticated staff quartet merrily offered a hint on how to proceed by singing, to the tune of "Yankee Doodle:"

When your wage rates far exceed
The Minimum of the bracket
And substandards is no lead,
We've got a better racket.

When there is no other slant
Under stabilization,
Base your case on intra-plant—
Just say reclassification.

Incredible as it may seem, that parody, written in the War Labor Board idiom, was about the homely subject of how much people are to get paid for their labor. To grind out any such wage increase as that mentioned, however, it would have been necessary for the War Labor Board machinery to turn over at a speed to which it was quite unaccustomed. That fact alone makes such a calculation misleading as a guide to what the Board actually did, and so does the fact that the calculation is based on the fuller exploitation of wage increase possibilities than many had either the knowledge or power to make. Nonetheless, it is true theoretically that its policies permitted increases in wage rates of this magnitude. In addition they regularly accommodated awards such as those for vacations and paid holidays which, while they did not increase wage rates, increased the compensation of those receiving them.

Of course, getting an increase in the amount of pay for doing the same amount and kind of work is only one way of increasing the earnings of a worker. Other major ways are getting a promotion to a job carrying a higher rate of pay or working longer on the job and thus getting premium pay for overtime. Indeed, it is largely because of working longer hours and on better paying jobs that during the war period the average weekly earnings of workers in industry increased about four times as much as the average rate of pay for doing the same job—by about 77 per cent from January 1, 1941, to April 1, 1945, as opposed to 20 per cent for the same period. While higher paying jobs are presumably harder jobs, one bent upon showing how generously

the stabilization program accommodated wage increases would, no doubt, argue that a lot of the promotions had something in common with the arrangement whereby waitresses working for government contractors in Alaska were classified and paid as journeymen carpenters while other workers in the steward's department were given the financially exalted title and pay of crane and bulldozer operators. That set of "promotions" showed up in the record because the federal government was paying the bill. Those bent upon belittling the effectiveness of the wage stabilization program would argue that many of the same general character did not show up because the War Labor Board lacked the facilities to uncover them, as it also lacked resources to cope successfully with some cases where the provisions of the wage stabilization program were completely ignored.

However, it is also possible to produce a persuasive demonstration that the wage stabilization program was niggardly in granting wage increases—a possibility which the Labor members never left long ignored. If the argument is about wage rates, it is possible to cite cases of organized workers, with relatively high rates of pay, who in spite of much trying found themselves consistently barred by War Labor Board policy from receiving any increases in wage rates whatsoever during the war. In 1945 they were receiving the same rates of pay they received in the thirties. For industrial workers in general the increase in the average rate of pay for doing a given amount of work (about 20 per cent from January, 1941, to April, 1945) lagged well behind the increase in the cost of living (about 30 per cent for the same period) during the war, thus imposing upon the workers the necessity of working longer or at harder jobs to protect their standard of living. Also, in making a demonstration of the firmness of the wartime wage stabilization program, it is possible to cite thousands of cases where, even though employers were not only willing but anxious to grant wage increases, their petitions to do so were denied. These denials of wage increases voluntarily proposed offer perhaps the most conclusive evidence that the wage stabilization program was no pushover as a matter of policy. As a matter of enforcement, the records of the Board indicate that the program was observed by an overwhelming proportion of the substantial and responsible companies which constitute the bulk of American industry with violations limited largely to a fringe of fly-by-night operations of relatively slight magnitude.

While it was conventional for the Industry members to condemn the wage stabilization program as a sort of economic shell game in which employers played the suckers' rôle, most all of them were willing to concede, at least on condition that it would not be used against them in a Board argument, that wages along with prices would have gone

far higher but for the program. However, lest this seem to concede too much, most of them would also have been quick to add that such success as there was, was won much too dearly by concessions to organized workers, other than those directly involving rates of pay, which served to give them a stranglehold over American industry. Asked to be specific, they might first have mentioned various "fringe" adjustments, such as those granting paid vacations and holidays, but high on all and first on many bills of particulars would have been "union security," involving arrangements such as those calling for the maintenance of union membership and the checkoff of union dues.

As a wartime expedient, some of the Industry members initially looked favorably upon the idea of requiring workers holding membership in a responsible union to maintain that membership in good standing on the pain of losing their jobs, and participated in the formulation of such a policy. The principal argument in favor of it was that since the unions, or at any rate the responsible officers of the CIO and AFL, had pledged themselves not to strike during the war and thus reduced their possible usefulness to their members, they should be helped in holding these members by an order requiring their members to keep their membership in good standing (primarily to pay their dues) on penalty of losing their jobs. Such an arrangement, it was emphasized, would not require anyone not already a member of a union to join a union to get or hold a job, but would simply require those already in the union to maintain their membership in good standing. In doing so, it would not only prevent anti-union employers from taking advantage of the patriotically self-imposed weakness of unions, but it would also reduce jurisdictional conflicts between the unions by requiring union members to stay put unionwise.

This latter possibility prompted me to do some pioneering in the development of the maintenance of membership policy in the lumber industry of the Pacific Northwest. There, early in the war, I served as the chairman of a special commission which recommended to the predecessor of the War Labor Board that the policy of requiring union members to maintain their membership be applied in the situation where rival unions at times seemed almost more interested in fighting each other for members than they did in producing lumber, badly needed to fight the Axis. It later became the policy of the War Labor Board to grant a maintenance of membership provision to a responsible union, regardless of whether or not there was any showing that its membership was threatened. The primary gauge of the union's responsibility was its wartime strike record.

Why the Industry side eventually turned so completely against the maintenance of membership arrangement is another of those questions

which the formal record of the Board probably will not answer satisfactorily. Despairing of having their position prevail, the Industry members reached a point where they simply voted against maintenance of membership and let it go at that. Unless there was some substantial charge that the union in question was irresponsible, the Public members promptly joined the Labor members in voting in favor of it. In employers' petitions to the Board to eliminate maintenance of membership provisions, which continued to pour in upon it in spite of its established policy to approve such provisions, a fairly standard set of objections were recited. They bore down principally on the proposition that the arrangement robbed both the employer and the workers of their freedom—that of the employer to hire people without regard to their affiliation with any private organization, and that of workers to get, hold and advance on a job on the same basis.

These objections, however, were present when the maintenance of membership policy first found some favor with the Industry members. Consequently, they offer no satisfactory explanation of the shift of the Industry members to adamant opposition to maintenance of membership provisions. In accounting for such opposition, which may be explained in some measure by changes in the composition of the Industry group, some of the Industry members would no doubt emphasize the fact that the policy of giving unions the protection of maintenance of membership provisions was initially justified as a *quid pro quo* for their pledge not to strike and was entitled to no more binding force than that pledge which was frequently broken. Such an explanation, however, would not account for the fact that the Industry members voted against maintenance of membership provisions for unions with perfect records of no strikes during the war quite as consistently as they did against such provisions for unions with badly blemished strike records.

In this connection it is interesting to note that after Russia entered the world conflict, perfect wartime no-strike records were made by a number of unions with so-called "left wing" leadership which previously had not seemed to have aspirations to attain perfection in that line, while some of the worst records were made by unions with what would be regarded as conservative, old line American leadership. This fact unquestionably bemused the Industry members in following through on the maintenance of membership policy, as it may also bemuse anyone else who is thinking about the post-war course of labor relations.

By adding up the number of man-days lost through wartime strikes (about 6½ million during the first half of 1945), it is possible to suggest that Labor's no strike pledge did not amount to much. What such

a statistic, which represents fifteen one hundredths of one per cent of the working time of industrial workers, more truly signifies, however, is that this is a very big industrial country. It seems clear that, as a matter of fact, the pledge served powerfully to retard the impulse of organized workers to use their striking power to "get theirs while the getting was good."

Perhaps the best single explanation of the shift in the position of the Industry members to complete opposition to the provision for union security is simply that they concluded, under what is obviously heavy and often passionate pressure from their employer constituents, that they had originally made a mistake in believing that unions needed some special protection during wartime because of their pledge not to use their economic power by striking. Support for that view can be found in the steady growth of union membership during the war (from about 8½ million members in 1940 to about 16 million members in 1945) and its expansion into many industrial units and communities where it never existed before. To many employers, particularly in the South, the idea that the employer should help the union maintain its membership was shocking to say the least. When it was combined with provision for a check-off of dues requiring the employer to collect the dues of union members and then turn them over to the union, which the War Labor Board commonly granted, it became scarcely less than maddening. And when, as sometimes happened, the employer was ordered to pay the local union officials for time devoted in working on grievances of union members and to give these officials special seniority rights to their jobs, "Well, suh!" as one of the Southern protestants put it, "I frankly despair of the future of this great federation of states."

Completely to the contrary, the Labor members insisted throughout that the Board's maintenance of membership policy provided too feeble protection against those employers who would gladly seize any opening for an anti-union drive, including that resulting from the weakening of the claims of a union on its membership by strict adherence to a wartime no-strike policy. Perhaps the most truly feeble aspect of the Board's handling of the union security issue, however, lay in the fact that it did not suceed in doing anything to ease the strife of the Labor and Industry members over it. On the contrary, their lines of conflict tightened until they were absolutely rigid. In the meantime, in the no man's land between them, untouched by constructive ideas or suggestions, was a key problem in the field of labor relations.

In addition to the paramount issues of pay and union security, the War Labor Board dealt with an almost infinite variety of other issues

certified to it for settlement. The first rôle assigned to it was that of settling labor disputes which threatened to interfere with the successful prosecution of the war. Consequently, its job tended to become as broad as the range of matters about which it is possible to have a labor dispute, and the talent which went into developing this territory seemed at times positively prodigious. As already indicated, the disputes came to it in all sizes and shapes. One case certified to the Board had well over a hundred separate issues and quite a few cases approached that staggering number of issues. Many others had only one issue involving a single worker. Perhaps the most important issues apart from wages and union security which regularly came to the Board were those involving the establishment of machinery to settle the grievances of employees and those involving rules to govern promotions and lay-offs. Other issues ranged down in seeming importance to those involving such matters as the towel supply arrangements and smoking privileges in privies.

Indeed, because of the extremely broad nature of its charter, the Board occasionally got mixed up, or mixed itself up, in disputes which it could be plausibly argued were not labor disputes at all. This was true, for example, in the notorious Petrillo case involving a fight over the payment of royalties on the making of phonograph records and transcriptions. The United States Supreme Court to the contrary notwithstanding, that was probably primarily a row in the field of trade and business practices. The Labor Board took it on, however, and ordered Mr. Petrillo's American Federation of Musicians to lift its ban on the making of records and transcriptions which it had imposed to penalize companies engaged in this business which had not met its royalty demands. Although the union successfully defied the Board's order, the case was by no means without consequence since it dramatically reminded other labor leaders of the fascinating possibilities in the royalty approach to sharing the proceeds of production—possibilities which may be extensively and strenuously tested over the next few years.

What will be the post-war consequences of the manifold orders the War Labor Board issued, particularly those prescribing working conditions which do not necessarily have the transitory character inherent in wage-rate regulations? With the passing of the Board, will the effects of these orders evaporate, or will a lot of arrangements stay in place although no longer supported by federal authority? As a general proposition the answer to that question probably depends upon whether or not the Board was bucking, riding along with, or getting ahead of the great surge in the organization and mobilization of the power of the wage workers which was in progress when the war started and which the war did not interrupt. On a question of that kind, the opinions of

the Board members would surely have split three ways. The Labor members would contend that the Board bucked the tide. The Industry members would no doubt say that it tried to speed it up. It would be my impression as a Public member that the Board moved along with the tide and necessarily did so as an essential part of the process of serving its primary purpose—that of keeping war production going full blast by keeping the industrial peace at home.

For example, when the war started the practice of granting vacations with pay for production workers in industry was spreading rapidly. Through its orders, the War Labor Board extended the practice and enlarged the awards until it typically ordered one week's vacation with pay for workers of more than one year's service, and two weeks' vacation with pay for workers with more than five years' service. It can be and is argued that this was one of the dodges the Board has used to grant pay increases and still not seem to do so. It is unquestionably true that by ordering paid vacations, shift differentials, and a variety of other "fringe" adjustments—so called because they are on the fringe of direct adjustments in pay—the Board relieved somewhat the always tremendous pressure to increase basic wage rates. It is also true, however, that in so doing it was merely extending lines of improvement in the terms of governing the employment of American wage workers which it found surging forward when it was assigned its wartime rôle. It is my impression that it would have been reckless for the Board to chop off these lines of development abruptly and thus complicate even further its double-barrelled task of preventing wartime labor disputes and stabilizing wages. However, if there is ever to be any final verdict on this question—which is doubtful—it must await the acquisition of a perspective which only the passage of time can provide.

So, too, must wait the final verdict on the validity of my personal impression that all things, and many of them strange things, considered, the War Labor Board carried out its assignment well. How, in the light of manifold cross purposes impinging upon it, the Board managed to do so is not a simple question. The basic answer, I believe, is that, in spite of all of the pulling, pushing, snorting, and pounding which enlivened its course, all elements of the Board were powerfully propelled by a deep sense of devotion to a country which even in wartime permitted such an untrammeled performance in handling labor disputes, instead of committing them to the much more tidy disposition of a dictatorship. At any rate, labor disputes which would cripple war production were prevented and wages were kept relatively stable. These were the major objectives of the War Labor Board. Of course, what the price of success in obtaining them will be, in terms of post-war headaches in industrial relations, remains to be fully determined.

Also, only the future can tell where we shall be when the surge in the rising tide of labor, which plays such an important part in any assessment of the work of the War Labor Board, has spent itself. It occurs to me that when as a nation we put together, or allowed to be put together, a corporate structure which gives about 200 industrial corporations control of almost half of all the nation's industrial assets and did so in a country with relatively democratic political and social institutions, we inevitably touched off such a development in the field of labor as that which is now going forward. For all I know it may end up by ushering in, a little late, the century of the common man. All I am reasonably sure of is that it will not be the century of the rugged individualist.

A RECONSIDERATION OF THE THEORY OF RENT

By Dean A. Worcester, Jr.*

In most discussions of rent, it is customary to demonstrate how the remuneration due each segment of land may be determined by either residual or marginal productivity analysis, to note how this distributes land to its most important uses, and to conclude that, since social costs do not determine the supply of land, the receivers of rents can be taxed in special ways which would not otherwise be justified. It is usually argued, implicitly or explicitly, that the existence of rent does not increase prices and that social costs, therefore, are in harmony with the money prices paid by consumers.

To be sure, there is a growing group of economists who turn their backs on all such analysis and define rent in terms which apply equally well to any factor of production and which in any case include only part of the total payments to any productive agent. That both groups deal with matters of substance is hardly open to question. That the proponents of the two groups can understand each other is less certain. And it is inevitable that the neophyte will find his footing precarious. He must distinguish among at least three general groups of theorists; the classical, of whom Marshall and Taussig have probably presented the best arguments although neither is hardly a pure Ricardian; the neoclassical, which in this case is no more than a shorthand expression for those who, with Wicksteed, Jevons, Davenport and others, agree with the definitions and most of the conclusions of Marshall but who believe that the marginal productivity approach is superior to the residual approach; and the Paretian, which is followed in general by Joan Robinson, K. E. Boulding, H. D. Henderson and others and which involves fundamentally different conceptions. The purpose of this paper is, then, (1) to trace in rough outline the steps which have led us to the present ambiguities, and (2) to make some positive recommendations designed to unify the now divergent points of view so as to increase the content of rent theory.

The argument proceeds through the following stages: (a) an analysis of the necessity for and the steps involved in abandoning the classical position that rent does not affect the market price of commodities; (b) how this abandonment makes necessary two theories of rent, one based on opportunity costs and the other based on real costs; (c) the manner

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by which the conceptual relationship between the two theories can be preserved; (d) how the Paretian concept inserts much detail into the classical and neoclassical systems but seriously impairs the meaning of the word "rent"; (e) the advocacy of the use of the term "rent" to indicate the full opportunity cost (or remuneration) of a unit of land, as defined below, when this is computed on the level of the firm; (f) the need for a new term if the concepts of the various groups of theorists are to be brought together—"factor profits" is suggested; and (g) subsidiary reasons for preferring marginal productivity theory in the determination of rent.

In the following sections we shall consider, first, the manner in which the various viewpoints within classical and "neoclassical" theory came into being, and, second, the effect of the introduction of the Paretian concepts upon this structure. Such a recapitulation is most fruitful if based on Marshall's writings[1] since his entirely too clever defense seems to lie at the roots of most of our difficulties. In referring to Marshall we must raise again some of the old issues which were once discussed to the point of utter exhaustion and essential futility. But perhaps, at last, they may now reveal the basic points of view in such a way that, rather than end in deadlock, they can contribute to a more rounded theory.

Semantics and Rent Theories

We may begin by defining "land." We are not interested in the physical characteristics of the various agents of production with which we are confronted. Rather, their economic aspects draw our attention. Thus, for purposes of this discussion, land will be thought of as that group of productive agents whose fitness *for a particular use* is not likely to change as a result of a change or even the elimination of the remuneration of its owners. It is evident, then, that this paper is concerned with the analysis of a certain kind of supply condition, and not with the classification of productive agents. No attempt will be made to discover an exact line between "land" and "capital."[2]

[1] All references to Marshall will be to the eighth edition of his *Principles of Economics* (London, Macmillan, 1938).

[2] Some may contest the value of such a discussion on the ground that a better theory of distribution can be evolved using anonymous productive agents rather than four heterogeneous categories named "land," "labor," "capital" and "entrepreneurship." While the author has no objection to the generalized approach, the different supply conditions exhibited by different types of productive agents seem to justify quite different economic policies toward the owners of the various agents. The case of a "fixed' supply is valuable as a practical and as a limiting case even if it is not the most convenient concept when referring to the whole field of distribution, and, more particularly, to the problem of exhaustion of product. No one today would attempt to force all of economic reality into four types of supply conditions, but the intermediary cases will be more easily analyzed if the major limiting cases are understood.

While "land" may be defined at the outset, this procedure is quite impossible for "rent." Some of the things to which it might refer are:

1. An entrepreneural payment to certain agents of production.
2. Part of the entrepreneural payments made to certain agents of production.
3. The income received by owners of certain productive resources.
4. Part of the incomes received by owners of certain productive resources.

There are some other ways in which various definitions might be expressed, which would multiply the possible number of precise meanings, but this list points up the main issue at stake. Numbers 1 and 3 can both be derived from a single operational definition.[3] So can numbers 2 and 4. But numbers 1 and 2, 3 and 4, clearly refer to different concepts, and can be only improperly labeled by the same term. Yet each group is accepted by large numbers of economists, who do employ the same term in common. Those who prefer numbers 1 and 3, apparently believe that the essential characteristic of "rent" is that is the full long-run remuneration of a certain group of productive agents called, collectively, "land," while the other group believes that the essential characteristic of rent is that it is a surplus return.

Inadequacy of the Classical Synthesis

At one time the concept of rent as a surplus return was not thought to be incompatible with the concept of the full long-run remuneration of the factor "land." Marshall apparently did not think so, although by his time there were a number of economists, including Mill, Jevons and Wicksteed, who were beginning to show some doubt. Marshall's case rests on the social point of view, and on that ground is correct, as will be pointed out later. But from the standpoint of the individual firm he was mistaken, and as a result of his ingenious efforts to reconcile the two irreconcilables he perpetuated and gave great impetus to the widening divergences between the various definitions of rent. It is to be emphasized, however, that the English economists of that day were agreed as to the definition of the factor which they were discussing. Wicksteed, for example, went to great length to prove the identity of the values computed by the marginal and by the residual methods.[4]

[3] The author subscribes to the view developed in modern physics and generalized by the logical positivist philosophers who hold that a phenomenon is identical to the sum of the conditions which define it. Therefore, those conditions or operations necessary to isolate the occurrence are its best definition.

[4] See Phillip H. Wicksteed, *Common Sense of Political Economy,* the 1935 reprint by George Routledge, pp. 563-68. The first edition appeared in 1910. See also S. J. Chapman "The Remuneration of Employers," *Econ. Jour.*, Vol. XVI (1906), pp. 523-28, quoted in G. J. Stigler, *Theory of Competitive Price* (New York, Macmillan, 1942).

Marshall admitted the validity of the marginal approach for theoretical purposes in his "Mathematical Appendix"[5] and used it in one place in his textual materials.[6]

In more recent years another, the Paretian, concept of rent has gained prominence among English-speaking economists, including H. D. Henderson, Joan Robinson, Kenneth Boulding, Robert Triffin and Albert Meyers. Although they use the term "rent," the result of the operations which they prescribe to isolate it is completely different from the results of the operations outlined by the classical or the marginal productivity theorists. Rather than the normal return to a certain group of agents of production, rent is defined as being the return to any agent of production greater than that required to keep it in its present employment. It is a return over and above (or in the case of negative "rent,"

[5] See Marshall, *op. cit.*, especially pp. 848 and 851.

[6] *Ibid.*, p. 535.

It may be helpful to sketch briefly Marshall's usual position. Typically, he thought of land as fixed in total supply, at least in old countries. When he turned to a consideration of an individual producer, he apparently decided that it was most realistic to assume that the land used by a single business man was also fixed, this time in the sense that it came in definite parcels of considerable size. He could then properly compute rent as a residual, with certain qualifications, after having determined the returns of such factors as might be variable by marginal productivity analysis. Each parcel of land would be allocated to its most important use in the long run as a result of the following process.

In the long run, or normal period, the entrepreneur would compare the productivity of each factor of production with the others with the sole exception of land. If it has been profitable to apply these factors intensively to land, a surplus return beyond the cost of the variable factors would result from the sale of the product, and this would give the firm the ability to pay rent. But other firms, and firms in other industries, might also be able to earn a surplus on any given piece of land. Competition would then take place for the whole unit of land resulting in its appropriation by the firm which could earn the greatest surplus with the particular parcel of land. Since the equilibrium rent is equal to the largest surplus, this would serve to allocate the various parcels of land to the same uses that a marginal approach would, assuming only that the land units were small enough so that all of each unit would be fully used by the successful bidder. This is a corollary of the demonstration that the computation of rent for any firm will yield the same result whether the residual or marginal productivity approach is used. Thus Marshall succeeds in allocating land without having it enter into the marginal elements of a firm's costs.

Jevons, Wicksteed, Davenport, and many others have argued against the Marshallian concept, holding that rent should not be measured as a surplus since it is unnecessary to do so, and it adds nothing to the explanation. Moreover, it makes the theory unnecessarily complex by putting rent on a basis different than other expenses and adds to the number of relatively unmanageable "surplus" returns. These theorists further believe that land is divisible and therefore may be properly regarded as a variable unit so far as each individual is concerned. Furthermore, they think that it *ought* so be regarded because of the smooth way in which it would then fit in the larger framework of economic theory. Marshall acknowledges the final point and condones it for this purpose, but not for general discussions. The dispute, then, was almost exclusively about the implications of the method and not the definition of the result. In either case, rent was defined as equal to the full normal return to land, a return which is equal to the maximum amount which it, with the coöperation of other agents, can add to the national income. The relative merit of these two approaches will be appraised in the final section of this paper. It is sufficient now to establish the identity of the definitions.

less than) the normal return to an agent, and is clearly a "surplus" return.

The manner in which the two major present-day definitions have grown apart can, perhaps, be best elucidated by reference to the ancient controversy within classical and neoclassical theory: Does or does not "rent enter into the costs of production" of commodities? The views expressed by Marshall postulated a harmony between market, or opportunity, costs and real costs. In taking this position Marshall seemed to maintain that rent did not "enter costs," and—by excluding it from the marginal costs of producers even in the long run—apparently based his conclusion on the Ricardian argument that the last units produced came from inputs of "labor" (and capital) on either the intensive or the extensive margins where the returns were just high enough to pay the "labor" (and capital) costs, leaving nothing for rent. He was, therefore, able to maintain the hypothesized harmony between social and private cost. While his basic argument is based directly on real costs rather than this argument, it, nevertheless, merits examination, since it has fathered the growth of contradictory definitions of rent.

An examination of Marshall's arguments will reveal that his own logic fails to support the supposed harmony in some cases, and that in the other cases he preserves his position only by his often undetected switch to considerations based on real costs.

Because of this it is not entirely clear that Marshall meant to imply that rents may not affect the long-run *prices* of goods, as distinct from their costs. For example, he says: "A rise of ground values may be an indication of a scarcity of space that will tend to raise traders' prices";[7] and again: "A rise in rent does serve as a medium through which the growing scarcity of land available for hops and other produce obtrudes itself upon his notice." In this case, however, he concludes by saying that: "But it is worse than inexpedient to say that the rent of the land does enter into their [the hops'] price: that is false."[8]

To say that it does not enter price, as distinguished from (real) cost, however, is not consistent with his later statement that "land shares the influences of the laws of demand and of substitution . . . because the existing stock of it, like the existing stock of capital or of labor of any kind, tends to be shifted from one use to another till nothing could be gained for production by any other shifting. And . . . the income from a factory . . . is governed in the same way as is the income from land. In each case the income tends to equal the value of the marginal

[7] *Ibid.*, p. 452.

[8] *Ibid.*, pp. 436-37.

net product of the agent. . . ."[9] This is a clear statement of marginal theory in the short run and would make land rent as price-determining from the point of view of the individual producer as any other variable, for certainly land which is variable in the short run will be variable in the long run.

In whatever manner Marshall may have intended these statements, it is clear even on Ricardian premises that land rents do affect price in the case of those industries where the least efficient producers of a commodity must pay rent due to the competition of firms producing other products such as the "traders" referred to in footnote 7. In that case the pressure of others who desired to use the land eliminated all but the strongest traders who, to keep their places, had to pay the higher rent. This was possible because of the failure of the weaker traders, whose withdrawal affected a reduction of supply of certain commodities resulting in higher prices. It might be said that, as the price of land increased, the *industry* was forced to let some land go until the "marginal productivity" of the land was as high as its rent.

Another example in which all fixed elements are of positive value may be found in Marshall's discussion of meteoric stones where he identifies the case where the stones "cannot be worn out or destroyed, and no more can be found"[10] with the rent of the land. He then says that they will be distributed by the price system to their most important uses and that the price paid for them will indicate the value of their services at their margins of application. The implication is clear that there are no marginal or no-rent stones and that the stones must be had if the product is to be produced. Thus the price paid is a price that the individual firm *must* pay if it is to continue to have the use of the stones, and is, therefore, a payment that must be made from the sale of the product produced with the aid of the stones if the "rent" is to be effective in allocating the stones to their most important uses. But Marshall does not draw this conclusion. Instead he turns to the point that it does not matter who receives the rents so far as the productivity of the stones now or ever is concerned. In other words, he turns at once from the individual to the social point of view and to matters of tax policy, both of which are related to real rather than opportunity costs. We shall come back to this shift in a moment, but first it may be well to inquire into the prevalence of the situation where the least efficient long-run producer must pay rent. At the moment we must note that, however correct his analysis of tax policy may be, it in no way disproves the possibility of commodity prices which are affected by the payment of rent.

[9] *Ibid.*, p. 535.

[10] *Ibid.*, p. 418.

Mill apparently decided that rent typically raised the price of manufactured, though not of agricultural, products.[11] The present author has difficulty in conceiving of any industry which does not find rent affecting the price charged by the "marginal," and hence all, firms. Certainly all retailing is carried on in areas where the worst usable locations are "superior" sites for hotels, apartments, or residences. Moreover, land to be put to any urban use must yield as much as the agricultural use that might be made of it, and this is almost certain to be positive near a city. Likewise "marginal" dairy land is likely to be superior for fattening animals, and land "marginal" for this purpose "superior" for growing certain grains or fibers, and this land is probably superior for stock-raising, and so on. Some sheep are raised on the public domain, and with them we may find a product which is raised in part on no-rent land and which, therefore, need cover only labor and capital costs to retain its marginal suppliers in the long run. But even in this case we discover that the sheep are shorn and wintered in the lowlands where the land has alternative uses.[12]

In the case illustrated above, where—due to a scarcity of land suitable for certain uses—*all* competing producers must pay rent, an element heretofore passed over in this paper has been made explicit. So long as all producers had the practical alternative of using no-rent land, rent might properly be thought of as not belonging in the group of opportunity costs "entering into" the price of commodities. The full rent was then a "surplus" both from the viewpoint of price-determination and that of real costs of production, although its payment was unnecessary to secure the proper allocation of land. Now it seems clear that *part* of the return to land usually affects price; namely, that part equal to the average cost of land to the marginal producer of any product.

Marshall apparently never quite understood the problem in this manner and when he tried to answer Jevons on this point Marshall shifted his ground so as to make the parcel of land under discussion much more profitable in one use than in another so that there was no "simple numerical relation between the surplus, or rent, which the land would yield under oats and the marginal costs which the prices of hops must cover."[13] He then seems to assume that some of the units of the

[11] J. S. Mill, *Principles of Political Economy*, Ashley ed. (London, Longmans Green, 1909), p. 468.

[12] Among others, Gustav Cassel has made a good deal of this point in his *The Theory of Social Economy*, translated by S. L. Barron (New York, Harcourt Brace, 1939), pp. 287-88.

[13] Marshall, *op. cit.*, pp. 436-37.

product yielding the highest rent on this particular parcel of land is grown on a no-rent margin.[14]

Thus Marshall seems to contend that the price of a product will rise if the producers cannot pay rents high enough to retain certain lands due to the application of their labor and capital to less productive soils. In this way, although prices rise, no rent is included in the cost of the marginal units raised. Land, therefore, *need* not even be a supplementary cost since in the long run a firm may move to no-rent land. But this argument of Marshall's misses the mark. It is not enough to say that price is increased because the factors are forced to work poorer land. This may be true, but in the case under discussion it is also presumed that producers of many products will find that the least productive technically available land is scarce and commands a rental. In that case the producer does not have the alternative of moving to no-rent land, but only to this land which is worth a certain minimum rental. And this much, at least, must now be counted among the supplementary costs and must be covered in the long run. By a simple extension of this argument all payments necessary to keep certain parcels of land in a given industry will become supplementary costs and this will raise the normal price of most goods to a level higher than that which would prevail if land were free.[15]

[14] See F. S. Oglivie, "Marshall on Rent," *Econ. Jour.*, Vol. 40 (1930), p. 1-24. This is not the interpretation given by Professor Oglivie to this passage. He seems to hold the opinion that since Marshall went on to say ". . . if for the purposes of a particular argument we take together the whole expenses of the production on that [rent-bearing] land, and divide these among the whole of the commodity produced; then the rent which we ought to count in is . . . that which it . . . [pays] when used for producing . . . [wheat]." P. 437n. Marshall admitted the crux of the arguments, against his position. But Marshall never denied the existence of rent, nor that firms on economically scarce land must pay rent. What he did say was that rent does not enter the calculations of the producer because the producer thinks of land as being fixed. This statement is in line with this view and yields nothing to the marginal productivity analysis. See also M. T. Holland, "Marshall on Rent—A Reply," *Econ. Jour.*, Vol. 40 (1930), p. 36, for a still different defense of Marshall's position. See also G. J. Stigler, *Production and Distribution Theories* (New York, Macmillan, 1940), p. 94. The interpretation given here, although based on quality of the product, yields a conclusion similar to ours.

[15] Some may argue that this presentation ignores the basic consideration. It has been widely taught that the main issue is a matter of what is cause and what is effect, and that at least under conditions of increasing short-run average cost, prices must rise or fall *first* and rents then adjust themselves. This is logical enough when attention is paid to a single industry in which competing firms operate. But if as a result of a rise in the price of hops the rents on hop-lands rise, diverting land suitable for growing either hops or wheat to hop production, what will be the effect on wheat prices? Clearly, the acreage in wheat will be reduced, the supply of wheat will be shorter and prices higher in that order. The "final" cause of higher wheat prices, while not apparent, lies in the factors that raised the price of hops, but the immediate cause was a rise in the rent of wheat land which resulted in a reduction of supply, hence higher wheat prices. If the validity of this is admitted, then it becomes apparent that generalizations as to "price-determining" *vs.*

It seems inevitable, then, that rents, or at least part of them, do "enter" opportunity costs and do usually result in higher equilibrium prices. This does not make rent a social cost, however, and it therefore destroys the harmony between social and private costs so earnestly sought by Marshall.

We cannot pretend, as Smith, Ricardo and Marshall would have us, that all of "price-determining" cost must be accounted for by labor, past and present. It may be "wicked," as Edgeworth puts it, to come to this conclusion, but it is unavoidable.[16]

Two Theories of Rent are Required

It is proper to turn to real cost analysis, as Marshall does, in order to escape these conclusions if one is dealing with justice in taxation and similar problems. But in doing so one definitely leaves opportunity costs behind. The real cost concept is not a harmonious section of a single theory of rent which may be used to analyze social matters, but involves a separate theory based on real costs. Money costs, based on opportunity costs, yield a grossly distorted image of real costs.

To say this is in no way to detract from the value of the analysis of real, or social, costs. The "costs" which especially concerned Marshall are not the opportunity costs of the producers which we have been discussing, but are, rather, "the exertions of all the different kinds of labor that are directly or indirectly involved in making it; together with the abstinences or rather the waitings required for saving the capital used in making it: all these efforts and sacrifices together will be called the *real cost of production*, or, for shortness, its *expenses of production. . . .*"

Cost, then, is regarded byMarshall as being the sum of the efforts and sacrifices necessary for production.[17] Money cost is that payment neces-

"price-determined" factor-payments are not possible. The problem is not one of cause and effect, as such arguments assume, but mutual determination.

It is, of course, apparent that under competitive conditions, the price of the product will still be equal to the cost of the last dose of labor-capital. What this argument does say is that, if land is still treated as a fixed factor, it must earn a "surplus" of a certain size if the firm is to stay in the industry. This is a queer kind of "surplus," and its magnitude may be found just as easily (if land be thought of as a variable) by finding the quantity of land the cost of whose marginal dose is also equal to the price of the product under competitive conditions.

[16] Quoted in Oglivie, *op. cit.*, as appearing in Edgeworth's *Memorials*, p. 436.

[17] With such a definition of cost it is clear that Marshall's rigid insistence upon the distinction between rents and quasi-rents is quite proper. Quasi-rents involve real costs and rents do not. The supply conditions in the long run are crucial and similarity in demand factors or short-run divisibility will not alter the basic distinction. On the other hand, it is true that the supply of land can usually be reduced by literal or figurative "mining." The total return to land is typically a gross, not a net, return, and unless the proper deductions are made, the net rent may be overstated. If this occurs and more than the net returns

sary to secure the existence of adequate supplies of all qualities of the various factors of production. But land is defined as being the gift of nature and, in its basic characteristic, indestructible, although it may be severely "mined" in its subsidiary aspects.[18]

Since the author believes that the Marshallian analysis of real cost is essentially correct, and since he entertains a similar opinion about the validity of price theory based upon opportunity cost, it is desirable that some precise connection between the two be established.

The Relationship between the Two Theories

A connection between Marshall's "money cost of production," *i.e.*, the money payments associated with real costs, and the total money cost of production may be preserved by a special use of the fixed factor analysis.[19] If we classify all real costs as variables but treat all non-real opportunity costs as fixed, the "expenses of production," as defined above, are equal to the average *variable* costs and the quantity indicated by the distance between this curve and the average cost curve at any point will measure the gap between real and money costs as expressed in dollars. A major point of this paper is that such a gap is to be expected in the case of marginal as well as other firms.[20]

This comment in no way invalidates the choice of the function which minimizes social cost as described by Ellis and Fellner, but it does suggest that price on the curve "excluding rent" does in fact only partially exclude it except in the special case presented by them. The non-real cost agents of production are scarce and productive. They, too, must be allocated to their most important uses and the basic consideration is that efficient use be made of all of the scarce productive factors taken

are taxed or withdrawn from the enterprise, a wasteful use of land will result which will involve lowering the quality of the land.

[18] The basic characteristic is conceded to be its extension. The fact that "land can be ruined" simply means that the user was not content with the *net* return, but took as income some of the "asset value" in addition. Such practices are discussed under the heading of royalties and are closely connected to the theory of interest.

[19] This point was suggested by a consideration of the analysis made by H. S. Ellis and William J. Fellner in the article, "External Economies and Diseconomies," *Am. Econ. Rev.*, Vol. XXXIII, No. 3 (Sept., 1943), pp. 493-511. The author believes that the geometry used is based upon the implicit assumption that members of the industry have access to no-rent land because it shows a common origin for curves which show, on one hand, average cost including rent, β, and average cost excluding rent, δ, on the other (pp. 498-99). This is proper if land is regarded as variable or if land is regarded as fixed in quantity, but at least a small part of the total output is produced on no-rent land. The latter of these alternatives seems most proper here since the curves are relevant to a discussion of diminishing returns, apparently diminishing returns to land.

[20] This would have been clear from the diagrams of Ellis and Fellner, if, as the author believes proper, their β curve had at *all* points been greater, though by a diminishing amount, than the δ curve.

together. Since in this case only real costs are placed with marginal costs, any excess of marginal revenue over marginal cost represents a net social gain. Under equilibrium conditions the output indicated by this analysis is the same as if all factors were variable, as indicated above.[21] And these, in turn, are identical to that indicated by Ellis and Fellner.

Something more than the real costs are relevant in pricing, and social cost must recognize the loss which would result from an under-utilization of land. On the other hand, the *payments* made to the owners of fixed factors can be diverted to other uses without direct effect on production. Thus, the real cost is lower than the most desirable price from the social point of view. Social costs, as defined by Ellis and Fellner, cannot be identified with real costs except in the limiting case of industries which have access to technically useful no-rent land.

Paretian Rent and Classical Theory

We have seen how the attempted synthesis of business expenses and real costs led to certain difficulties in classical theory. We must now turn to another trouble spot in the analysis of rent.

Is rent the normal payment to land, including both surplus and cost elements, or is it just that part of the total payment comprising the surplus element?[22] Marshall's objection to the latter alternative seemed to be based on the contention that "there is no simple and numerical relation" between the surpluses raised by one product as compared to those raised by another. The Paretian conception provided an apparent answer.[23]

Pareto defines rent as equal to the *difference* between the two "surpluses." Thus there would be included in the total payment to land, as we have defined it, an opportunity cost (which affected prices and bore a "simple and numerical relationship" between the costs of two unlike products that could use the same land) plus a surplus, *i.e.*, a "rent" (which did not affect prices). This analysis has won over several influential English-speaking economists[24] who have sometimes termed the opportunity cost of land "transfer cost," to replace "rent" and quasi-rent as the principal return to fixed agents of production. "Rent," as

[21] See note 4 above.

[22] The third alternative, that it be designated as the opportunity cost element alone, will be discussed and advocated presently. It cannot be given a separate place at this point, however, since it is not a standard conception.

[23] Vilifredo Pareto, *Cours d'Economie Politique, Librairie de l'Universitie* (Lausanne, 1897), Vol. II, paragraphs 745-755 and related passages. Similar views are expressed in his later *Manual d'Economie Politique* in the section on rent. For a good treatment in English in a related vein, see Joan Robinson, *The Economics of Imperfect Competition* (London, Macmillan, 1934), chap. 8.

[24] See above, p. 261.

defined by this group, is a true surplus but one that may disappear in the long run, and which will in no case affect the allocation of resources.

But the Paretian answer goes much further than this in its implications. If analysis is undertaken at the level of the individual firms, the importance of these implications is not so apparent, especially if the standard assumptions in regard to competition are made. The differences would seem to center about the assumptions regarding alternative uses and terminology. If all units of the particular agent employed by a firm have the same alternative employments and if the difference in productivity between the best and the next best uses is infinitesimal, the Paretian rents disappear, leaving nothing but "transfer costs" which, as Wicksteed pointed out, are equal to Marshallian rents. Since many very similar firms were thought to make up an "industry" in Marshallian economics, the various agents *would* have very good alternatives within the industry, and since the productive agents were thought of as being homogeneous, all would have the same opportunity costs. In this case, incidentally, if all firms were exactly alike all of rent would "enter into" price.

But even within the framework of Marshallian economics conceptual changes would be required. Paretian rents might be zero from the standpoint of all the firms, for horizontal supply curves for the factors offered to a firm seem logical. Not so for a whole industry. The supply curve of factors for an industry usually has positive slope, making the payments to factors with the poorer alternatives greater than that required, *i.e.*, than opportunity costs, thus introducing a finite "rent" element into a situation where an analysis of the firms had revealed only infinitely small "rents." Moreover, from the social point of view, rents are higher still, since few agents can insist on much more than subsistence, which, in the case of land, is zero.

All this may be fine in so far as it introduces greater flexibility into the theoretical economic system, but it leaves rent theory in a nebulous state, with the payment of rent related to different functions by different authorities and varying drastically in magnitude according to the level of analysis used if one of the groups of experts is followed. The fact is that very different concepts are defined by the prescription of the various authors. We will discover that ideas of the various authors can be profitably synthesized. To do so, however, we must adopt a terminology as flexible and exact as the prescriptions. Let us turn to this task.

Rent Best Defined as the Opportunity Cost of Land

In the following sections we will be primarily concerned with rent as analyzed at the level of the firm rather than that of the industry. Further analysis of real costs may be left to the standard treatments. Space for-

bids expansion into the various levels intermediate to the firm and society as a whole at which "rent" might be determined, although such extension is not difficult. The author feels that the term "rent" should be applied to only one level, and suggests following Stigler's lead in the choice of terminology of the intermediary levels.[25] "Rent" may perhaps be most properly applied to the remuneration of a certain type of productive agent as the remuneration appears to the owner of the agent. This will usually depend on the opportunities available among firms, not industries.

Preference for the use of the term "rent" to refer to the opportunity cost of land may now be stated. This definition is in strict accord with the usage of neither of the groups of economists discussed above. But in no case would disruptive changes be involved. The "orthodox" economists who have thought of rent as the full payment to owners of land frequently make the assumption of homogeneity which eliminated that part of the payments which are of a non-opportunity cost character. Such economists would merely have to adopt Wicksteed's position. The other group could do their part in standardizing terminology by substituting the word "rent" where they now use "transfer cost" and adopting some new name for the group of "economic rents" which they have analyzed and which deserve a definite position in economic theory. Such a name is suggested in the following pages.

The choice of opportunity cost as a basis for the definition rests on several considerations. In the first place, it seems most in accord with common usage. To most people rent is still connected primarily with the use of durable agents rather than with surplus returns. It has come to be associated with surplus returns by professional economists largely as a result of several special arguments which can now be seen to be resting on special grounds. While there is little enough agreement of this matter of terminology within the ranks of economists, the proposed definition would probably minimize the total adjustment required to bring precision into our terminology, whether or not it were brought into accord with common usage.

Another reason for this choice is that no new name for the opportunity cost of land has been accepted. Some might say that "transfer cost" is such a name, but the author cannot recall seeing any listing of the functional shares of income that read "wages, interest, transfer cost, rent and profits."

A final reason is that the use to which the word "rent" is now being put by those who do not use it in connection with the normal returns to land seems misleading in important ways. As they use it, it is neither a

[25] See below, footnote 34.

real cost nor opportunity cost. Since many economists still think of "rent" as a major branch of distribution theory, this sort of definition tends to confuse the issues. Moreover, the fact that such rents tend to disappear in the long run makes it particularly incomprehensible to students and laymen. Yet if the payment to the various agents of production greater than that required to keep them in their present uses is not to be called "rent," what is it to be called?

True Surplus Returns to Productive Agents: Factor Profits

Paretian rents are not opportunity costs since they are defined as being the payment over and above opportunity costs. Neither are they real costs since they are payments which any agent may receive whether or not its supply, as suited to a particular use, would cease to exist if their owners were not paid. There is only one major share of functional income which is commonly thought of as having neither an opportunity cost nor a real cost character; that is pure profit. Let us then compare these surplus returns to profit.[26]

In the *Wealth of Nations,* profit was not clearly distinguished from interest. This practice, while modified by later English economists, was not changed sufficiently by them to exclude all non-cost returns until after Marshall's day, and some noted economists still regard entrepreneural returns as being composed, in part at least, of opportunity and/or real cost elements.[27]

These economists, of whom Hawtrey and Taussig are representative, seem to find repugnant the idea that a single man can be at one and the same time a salaried manager, and a receiver of purely residual profits. It is, of course, true that some business men earn much more year after year than others, and it may be tempting to speak of the greater earning of some as a "rent of ability," as Hawtrey suggests. In doing so, however, he not only uses the word "rent" in the sense of payment greater than the opportunity cost of the entrepreneur, *i.e.,* in exactly the sense which is inappropriate and incompatible with the usage advocated here, but he also seems to be saying in another way that entrepreneurs are paid according to their productivity. Any implication that they are fixed

[26] Most of the characteristics of "profit" referred to below are suggested in the chapter on profits which appeared in the book by Robert Triffin, *Monopolistic Competition and General Equilibrium Theory* (Cambridge, Harvard Univ. Press, 1941), pp. 158 *ff.*

[27] Marshall, *op. cit.,* p. 624n. It may be noted that if the manager is paid according to his ability and if insurable risks are also included in costs, the "excluded 4/5 of what are ordinarily classed as profits in England" becomes 5/5.

See also H. G. Hawtrey, "Competition from Newcomers," *Economica,* Vol. X, No. 39 (Aug., 1943), pp. 219 *ff.* It goes without saying that in this paper we have adopted ". . . what orthodox economists all over the world are teaching their students," rather than the view which he advocates in his article.

factors and receive a residual return will not affect this observation.[28]

We take, therefore, as our definition of profits that share of income left over from sales after all costs have been paid including the opportunity costs of management, insurable risks, and payments to bondholders and stockholders sufficient to maintain the investment at its current level. It seems clear that profits are as likely to be negative as positive for any firm in a "normal" year, and that in the long run for the economy as a whole profits will be zero, although there will be very wide fluctuations about this level and some firms may show profits for very long periods of time.

There seem to be several points of similarity between the surplus return of pure profits and the surplus return to certain agents of production. In the first place, neither return need be paid by a firm in order to retain the services of the agents who receive the "surplus" payments. This is true for each individual firm as well as for society, a point which distinguishes this type of return from what we have defined as "rent." Rent (the opportunity cost of land) must be paid by the firms in order to secure the agent for the firm's use. Profits and the surplus returns to some units of specific agents are also alike in that neither the specific agents nor the profit-takers *need* be fixed in quantity or location in the ordinary sense of the word. They simply *will* not change their employment if their returns are reduced even if they could so long as they are not reduced below their opportunity costs. Thus taxes that fall on either profits or surpluses of this nature will affect neither output nor price directly whether or not the taxes are uniform, *i.e.*, reach the surpluses of all competing agents or firms on the same basis.[29]

This last statement must be qualified. If pure profits are taxed, unlike the surplus returns mentioned above, it is probable that people will be less willing to become "profit-takers" since losses are likely to outweigh profits-minus-taxes. But this is a consideration that depends upon the nature of the supply of entrepreneurs[30] and, in any case, does not bear upon the problem of output and price where the entrepreneur can be called a fixed factor in the ordinary meaning of the term.[31]

[28] See page 260 above. Parenthetically, it may be added that the conception of opportunity cost seems unnecessarily restricted as it is used by Hawtrey. He apparently regards all opportunity past after the stripling youth has made his choice of profession, since his "opportunity" is what he might have expected to make in another profession. But the ordinary meaning of the term as used in America implies, on the contrary, a relatively short-run situation which would not exclude the entrepreneur, currently employing himself, from the alternative of becoming the manager of another *firm* in the same industry.

[29] The use to which the tax funds are put may, of course, affect the output and price.

[30] Such nice calculations would probably not affect the supply of entrepreneurs if their supply depends, as some maintain, upon the "sweepstakes urge" where mindful of a better-than-even chance of loss, this chance is taken to make possible a very rich gain.

[31] To avoid confusion in matters of tax policy it may be well to contrast these surpluses

Another point of similarity between "surplus rents" and entrepreneural profits is suggested by Triffin who remarks that, "[A promoter's] purpose may be sheer exploitation of the bondholders and the stockholders . . . he may innovate by creating . . . profit-opportunities for himself, rather than for the corporation. . . ."[32] In this, too, the position of the profits-taker is similar to that of owners of other factors of production who receive returns greater than their opportunity costs. Bankers when lending their funds, workers when bargaining for their contracts, suppliers of materials and buyers of the finished product are all, in theory, working for their own, not primarily for their firms' welfare—a fact that may explain the predatory actions which all groups in business occasionally display.

If one whole group of productive agents is successful in gaining special returns, their special returns will affect output and price if the marginal cost curves are affected, and their returns, although "surplus" from the social point of view, reduce output and increase prices resulting in a monopoly profit which is appropriated by the privileged group. This eventuality is possible only if the industry or firm is monopolistic. In this case a tax on such a surplus will improve matters by transferring part of the fruits of the exploitative gain to the government, which is presumed to act in the general welfare. Again this type of analysis is

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with the opportunity cost of land. A uniform tax that takes the same percentage of the rent regardless of the purpose for which the land is used will affect neither the prices nor the outputs of the various goods produced with the aid of land. This conclusion follows only in the case that the tax does not change the relative position or at least the ordinal relationship of each agent; *i.e.,* is in some sense of the word "uniform." But this is true of any factor of production, *e.g.,* a uniform income tax (or a properly constructed progressive one) will leave all receivers of income in the same relative position where, at least, they can not shift so as to increase their money incomes after taxation.

It is to be noted, however, that unlike other factors, collateral effects on the physical supply of land or the extent of the use of land are avoided, since land has no real cost, with the exception of the case elaborated by K. E. Boulding ("Incidence of a Profits Tax," *Am. Econ. Rev.*, Vol. XXXIV, No. 3 [Sept., 1944], pp. 567-72), where the owners do not try to squeeze all of the rent out of their holdings. (In general, I believe that his conclusions are stronger when applied to Paretian rents, rather than profits, since one can not count on the existence of positive profits, and it is generally conceded that business men will work pretty hard to avoid losses.)

As in the case of other factors, a tax on land which is devoted only to certain uses, if impinging on opportunity costs, will result in a changed use of some of the agents. The conclusions reached in regard to the surplus returns, and profits, in contrast, have application whether or not the tax is "uniform." Any tax smaller than the surplus will fail to result in the movement of an agent of production even if only scattered and random agents are taxed and all others escape entirely. This follows since the current employment remains the only one where returns greater than the opportunity returns are available.

We can hardly afford to use the word "rent" indiscriminately in matters of tax policy when the two commonly accepted payments defined as "rent" yield such different results when taxed.

[32] Triffin, *op. cit.*, pp. 185-86.

identical to that typically used in discussing monopolistic "profits" rather than "surplus" elements in factor costs, but it appears to be appropriate.

This leads us directly to the consideration of a final point of similarity between pure profits and these surplus returns. From one point of view the surplus accruing to the individual agent *is* a profit. In a free economy each agent is responsible for finding its own employment and may be thought of as a little firm selling a productive service.[33] Any failure to follow market conditions may result in a loss (*i.e.,* receipts less than opportunity cost in the sense of next highest marginal value product) and any advantage taken of a fortuitous situation will result in profit (*i.e.,* receipts greater than opportunity costs). If "profits" or "losses" become regular and lose their apparent "unusualness," the factor may impute the gain or loss to itself, thus raising or lowering its estimate of what it is worth in accordance with what it is paid, just as the entrepreneur of a firm will so revalue his fixed stocks. In using this term "fixed stocks," the true fixity of the "stock in trade" of the individual person is emphasized. This fixity, involving as it does a non-marginal, non-real cost situation, again underlines the parallel between the situation of the individual and the entrepreneur. Indeed, the latter is in the more favorable position today in that he can escape some of the risks involved in his actions through the application of various devices of business organization.

It is true that the difference between the scale of operations of the entrepreneur of a firm and the "entrepreneur" disposing of his personal services is so great as to amount to a difference of kind. This difference is perhaps great enough to justify a different term for these surpluses which may accrue to any factor. Perhaps the term "non-cost outlay" advanced by Stigler[34] will be found to be the most suitable. Another possibility is "factor profits" as distinguished from "entrepreneurial profits." Either of these terms would give the proper impression—that they are payments greater than opportunity costs to any factor of production—and their use would also avoid confusing surplus returns with the return to land.

Of the two terms, "factor profits" may prove to be the more suitable since Stigler's "non-cost outlay" is closely tied up to the industry concept. Throughout the last two sections of this paper, opportunity costs have been defined in term of alternative "jobs" which a given agent is

[33] Wicksteed, *op. cit.*, pp. 360-70, must have had something of the same thing in mind when he said that undertakers might be dispensed with and in their stead have the owners of the various productive resources spontaneously combine them, each waiting for his remuneration until the product due his agent had been sold.

[34] *Theory of Competitive Price*, pp. 105 *f*.

able to secure. Thus a movie star whose next best *industry* is selling does not show a "factor profit" embracing the difference between his present salary and his possible earnings as, say, a brush peddler, but only the difference between what he earns and what a rival studio is prepared to offer. Thus "non-cost outlay," as Stigler defines it, belongs most properly to the middle ground which we decided to eschew (see page 269).

"Factor profits" refer to the everyday level where the great majority of decisions are made which involve the allocation of resources. As such, it is the most important level on which returns necessary to retain resources in their present use can be discussed. The industry concept is not very useful here since job-opportunities cut across industry lines very freely.

Land is Preferably Treated as a Variable Factor

In the earlier discussions of this paper it seemed desirable to emphasize the identity of the results isolated using the concept of "fixed factors" and those isolated using marginal productivity analysis. Now that this need is past it is proper to point out the reasons why the author prefers to use the marginal productivity approach.

Marshall defended the concept of "fixed factors" on the ground of realism. Thus he wrote, ". . . in discussions written specially for mathematical readers it is no doubt right to be very bold in the search for wide generalizations . . . but it is not in a treatise such as the present, in which mathematics is used only to express in terse and more precise language those methods of analysis and reasoning which ordinary people adopt, more or less consciously, in the affairs of everyday life."[35]

Marginal productivity theorists usually are interested in "wide generalizations." Wicksteed, for example, who attacked Marshall most vigorously in this respect, was the first to give a demonstration of exhaustion of product by marginal productivity analysis under competitive conditions. But it seems proper to question the rôle assigned to land—and here physical characteristics, not the fixity of supply, is basic—by Marshall as he looked through the eyes of a business man. Let us assume that the *total* amount of "land" in the world is fixed. Is it the most prominent fixed factor to the individual firm?

In the United States most of our farms are what is called "family-sized." While, before the war, seasonal labor was employed during the harvests, the size of the family is an important consideration influencing the amount of land that it will attempt to work. Even where the families own their farms there is continual bargaining for the use of part of one

[35] Marshall, *op. cit.*, p. 851.

another's land. Thus the land is often more variable to the farmer than is his labor supply. On the other hand, it is likewise true that the United States merchant marine at least from the First World War until the Merchant Marine act of 1936, found its supply of ships, its capital, relatively fixed, whereas the land space required could be rented and was largely a variable factor. It may be objected that the second example is relevant primarily to the short run where Marshall agreed that capital might well be a fixed factor, but the point is not that capital is or is not fixed, but that, ***from the point of view of the business man,*** land may be regarded as being ***more easily*** varied than the supply of other factors in some important cases. If this is true, then the alleged necessity for putting rent on a different basis from wages or interest is not proved, and marginal productivity theory should be adopted, at least in certain cases, on grounds of realism as well as of theoretical beauty.

It may be that land is rigidly fixed in some employments, so that business men can not think in terms of adding or subtracting a small portion of their land even in the normal period. But this is certainly not true of farmers, and there are many business men of all kinds who rent their floor space and can easily acquire larger quarters if they so desire. From the viewpoint of a firm more of all factors can be obtained. The safest course on grounds of realism is probably to admit the validity of both types of analysis in so far as the economics of a firm is concerned, but to stress the marginal productivity approach.

Quite aside from the debatable element of realism, it should be noted that the presence of several surplus returns in the short run vastly complicates the problem of income distribution in the short run.[36] Where only one surplus return is to be determined, it can be correctly found as a residual even if it could be determined by marginal productivity; but if there are several fixed factors, resort must be made to simultaneous equations on the theoretical level, a device that seems more out of touch with business practice than marginal productivity theory.

Marshall was aware of this difficulty, but seems to have preferred to leave this problem unresolved in the short run, and only partially resolved in the long run.[37] These difficulties are especially pressing when monopolistic competition is considered, a condition in which each firm must be able to evaluate each agent without reference to any industry. Since no two firms have the same product it would be impossible to apply simultaneous equations, making the division of income among two

[36] For more detail on this problem as well as the distinction between rents and quasi-rents, see R. S. Meriam, "Quasi-rent," ***Explorations in Economics*** (New York, McGraw-Hill, 1936), Chap. X.

[37] Marshall, *op. cit.*, p. 626.

or more fixed agents quite arbitrary. In this case it would seem likely that costs would always be found equal to price simply because the "surplus" would be entirely imputed to land, at least in the long run, although a marginal analysis of rent might reduce it so as to indicate a high monopoly or other profit. In other words, a factor profit might displace the entrepreneural profit simply because of a lack of precision of analysis. The use of marginal analysis seems to be the best way out of this impasse.

Finally, the marginal productivity theory avoids the welter of special issues which have impeded clear thinking for so long. All elements of cost, at least those which must be positive, are placed on the same basis. So far as the allocation of resources is concerned, what is true of one is true of another. And the true significance of real cost can be stated with vigor, albeit separately, without a fallacious and unconvincing argument which attempts to identify real costs and prices.

Two major difficulties involved in rent theory have been considered above. The first is the unfortunate result of a mistaken attempt to synthesize incompatible doctrines of cost, the second is a disagreement as to the essential characteristic of rent. Both of these difficulties should and can be overcome. One method for doing so has been proposed.

BUSINESS CYCLES AND THE MODERN THEORY OF EMPLOYMENT

By Lloyd A. Metzler*

I. *The Propensity to Consume in Business Cycle Theory*

The modern theory of employment and income, which explains the level of total output in terms of investment and consumption, is generally regarded as a static theory. It is widely believed that the propensity to consume and the level of investment provide a broad explanation of the *level* of total economic activity achieved by an economy in equilibrium, but do not account for *fluctuations* in such activity.[1] In the study of cumulative processes of expansion and contraction—prosperity and depression—most economists feel that the popular discussion of savings and investment must be supplemented by other methods of investigation. When prices and production are rising or falling, for example, the effects of changing expectations upon the output decisions of business men must be taken into account. This means, among other things, that the rates of change of prices and sales are important factors in the volume of total production.

The "multiplier" explanation of output and employment has frequently been criticized on the ground that it neglects these dynamic aspects of economic activity.[2] To some extent, the criticism is probably justified, for much of the present analysis of income and employment consists simply of static supply and demand relations. Nevertheless, in concentrating on the static character of the multiplier, it is easy to lose sight of the fact that the basis of this multiplier—the marginal propensity to consume—not only provides a static explanation of the equilibrium level of employment but also supplies the framework for important extensions of the theory of business fluctuations. In other words, the development of the static theory of employment has been

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[1] See, *e.g.*, Gottfried Haberler, ***Prosperity and Depression*** (Geneva, 1941), p. 168.

[2] Much of the criticism was due to the fact that no distinction was made, in the theory expounded by Lord Keynes, between intended and unintended components of savings and investment. As a result of this lack of precision, the theory that the level of income is determined by the condition that savings shall be equal to investment seemed either false or tautological when applied to dynamic problems. See Haberler, ***op. cit.***, chap. 8; Fritz Machlup, "Period Analysis and Multiplier Theory," ***Quart. Jour. Econ.***, Vol. LIV (Nov., 1939), p. 1; Friedrich A. Lutz, "The Outcome of the Saving-Investment Discussion," *Quart. Jour. Econ.*, Vol. LII (Aug., 1938), pp. 611-14.

accompanied by corresponding changes in the theory of business cycles.

The changes in business cycle theory are of two sorts. First, the modern theory of employment establishes a definition of a norm about which the economic system fluctuates: at any given time, the equilibrium level of income is the level at which intended savings are equal to intended non-induced investment. Business cycles consist simply of fluctuations about this norm or equilibrium. It is true, of course, that this definition of equilibrium presents a number of serious statistical problems. Difficulties arise, for example, in distinguishing between induced and non-induced investment. Despite the statistical problems, however, the establishment of a conceptual normal level of activity constitutes an important advance in the theory of economic fluctuations. In the absence of this norm, it has been necessary in the past either to rely upon purely empirical concepts of equilibrium or to assume that the system tends automatically toward full employment and that any deviation from full employment is, therefore, an evidence of disequilibrium.

Both of these alternatives are clearly inadequate. The first is inadequate because the usual empirical distinction between secular trend and cyclical fluctuations about the trend cannot be justified without an explanation of the trend itself; a mere fitting of a curve by "least squares" or other methods does not suffice to establish the nature of the trend movements.[3] The second alternative—a norm of full employment—is inadequate because it is now clear that income may be in equilibrium at a level of output considerably below full employment. The modern theory of income and employment, by providing a concept of an equilibrium level of employment, thus fills a serious gap in the study of business cycles.

The second important contribution of the theory of employment to business cycle analysis is in the explanation of turning points of the cycle. Prior to the development of the concepts of propensity to consume and propensity to save, an explanation of these turning points was perhaps the most difficult task of business cycle analysis. Traditional theory usually assumed that the economic system is inherently unstable in the sense that a slight upward or downward movement of income and employment tends to initiate a cumulative and self-reinforcing process of expansion or contraction. In other words, it was commonly believed that an initial increase of income, employment, and prices would stimulate a further increase, and that income would continue to rise at an accelerated rate until the limits of possible expansion were reached, or until some outside force put a stop to the cumu-

[3] Edwin Frickey, "The Problem of Secular Trend," *Rev. of Econ. Stat.*, Vol. XVI (Oct., 1934), pp. 199-206.

lative process.[4] The converse of this argument is, of course, that a slight downward movement is also self-aggravating, and that a depression, once started, tends to continue until some factor or factors which operate only at low levels of employment reverse the movement.

Traditional business cycle theory thus conceived of the economic world as a world subject to cumulative upward and downward movements as a result of relatively small disturbances. From this conception, it followed that an explanation of the cycle was to be found in the factors which reverse the direction of the cumulative movement. Once a process of expansion or contraction was started, it was widely believed that an explanation of further movements in the same direction was relatively simple. In an expansion process, for example, the rise of income was believed to be reinforced by optimistic expectations as well as by the effect of higher demand upon the output of investment goods (the acceleration principle). And since Say's Law (supply creates its own demand) was generally accepted, it was difficult to see how producers' expectations, in the aggregate, could be disappointed. While particular industries might suffer from overproduction, this would be offset by increased demand in other industries. The cumulative movement of income and prices was thus regarded as an obvious process; the real difficulty lay in an explanation of the turning points.[5]

To explain how a process of expansion is stopped and a depression initiated, economists usually introduced certain limiting factors which become operative only at high levels of economic activity. It was frequently asserted, for example, that a period of prosperity and rising income is brought to a close by the inability of the banking system to make additional loans. Faced with a declining reserve ratio as a result of previous loans and as a result of cash drains to support a higher volume of transactions, the banks become reluctant to make further loans. Interest rates rise and a period of credit contraction ensues. By reducing the level of total demand for goods, this credit contraction brings all of the forces of cumulative contraction into play, and the level of output declines. Thus, according to this view, the immediate

[4] The classic example of such an unstable economy is given by Wicksell, in his description of the cumulative change in prices which results from a discrepancy between the real rate of interest and the bank rate. See Knut Wicksell, *Interest and Prices* (translated from the German by R. F. Kahn, London, 1936), chap. 9. While the cumulative process envisaged by Wicksell is a movement of prices and not of output or employment, unstable systems involving output may also be found in the writings of nineteenth-century economists. See, for example, the discussion by Pigou of a quotation from Walter Bagehot's *Lombard Street* in which Bagehot argues that a decline in output in one industry spreads through other industries in a self-reinforcing sequence of reduced demands. (A. C. Pigou, *Employment and Equilibrium* [London, 1941], p. 236.)

[5] Compare Jan Tinbergen, "Econometric Business Cycle Research," *Rev. Econ. Stud.*, Vol. 7, No. 2 (Feb., 1940), pp. 81-85.

cause of the crisis was the inflexibility of the banking system. Alternatively, the cause of the downturn was frequently found in a shortage of certain factors of production which made a continuation of the expansion process impossible. If the rise of output in certain segments of the economy were brought to a halt through the appearance of bottlenecks, it was widely believed that this would lead to a decline in total output through the operation of the acceleration principle.

At the other turning point, when depression ends and a revival begins, economists were much less certain about the immediate cause of revival. In some cases, the upturn was attributed to a resumption of investment activity induced by an accumulated shortage of equipment. In other cases, more liberal lending policies by the banking system were believed to be the immediate cause of recovery. And in still other cases, the revival was attributed simply to a return of business confidence and to more optimistic expectations in general. But whatever the immediate cause of revival, the important fact is that in traditional business cycle theory it was thought to be necessary to introduce limiting factors which brought the period of cumulative contraction to a close.

Like all brief generalizations, this explanation of traditional business cycle theory is no doubt an oversimplification. The problem is so complex, and the explanations which have been given for the cycle are so numerous, that no short summary could possibly be complete.[6] For this reason, the foregoing discussion is not to be interpreted as a summary of traditional theory. It is intended, rather, to point out one feature which most theories had in common: *The failure to develop explicitly the relation between consumption and income frequently gave an exaggerated appearance of instability to the economic system.* This led to a preoccupation with the causes of the turning points of the cycle, and to the introduction of limiting economic forces which were assumed to be operative only in periods of high prosperity or extreme depression.[7] Thus the acceptance of Say's Law, either explicitly

[6] One of the best summaries of the state of business cycle theory prior to the development of the theory of employment may be found in Alvin H. Hansen, *Business Cycle Theory* (Boston, 1927), chap. 8. Professor Hansen pointed out that, despite the diversity of opinion concerning business cycles, there was a fair amount of agreement with respect to three points: (1) the factors instigating an expansion or contraction; (2) the nature of the cumulative process; (3) the self-limitation of expansion or contraction. The most controversial and least convincing arguments in this summary were those advanced in explanation of the turning points, which were essentially the same as those mentioned in the text above.

[7] An important exception to this statement must be made for the theory of Professor Schumpeter (Joseph A. Schumpeter, *Business Cycles*, Vol 1 [New York, 1939]). Professor Schumpeter repeatedly emphasizes the significance of the norm about which the economy fluctuates, and holds that, when this norm is clearly defined, the turning points

or by implication, frequently disguised the structural nature of cycles, and created the impression that the turning points were largely due to special factors.

From this point of view, explicit recognition of the relation between income and consumption was an important development. When the concept of a propensity to consume was introduced, the economic system was recognized as an essentially stable system which is subject to more or less regular oscillations about a moving equilibrium. The turning points of these cyclical oscillations were then frequently found to be no more difficult to explain than the cumulative processes of expansion and contraction. In other words, the entire cyclical process was recognized as a process of adjustment to irregular disturbances of the system. The turning points of the cycles, like the periods of expansion and contraction, were seen to be inherent in the structure of the system, and were no longer regarded as dependent upon limiting factors such as an inflexible banking system or the appearance of bottlenecks.[8]

This does not imply, of course, that cyclical movements of income and employment are the result of a single cause, or that a single cyclical movement can be isolated as "the" business cycle. On the contrary, most recent studies of business cycles have emphasized the complexity of the actual economic system, and have shown that oscillations of income about equilibrium may consist of a number of cycles of different lengths superimposed upon each other. Individual cycles have been attributed, for example, to the demand for producers' equipment, to the demand for housing, and to the demand for inventories. All of these cycles were of course known in a general way before the theory of income and employment had been developed. Nevertheless, a clear understanding of the nature of the cyclical processes was not obtained until the theory of employment provided a concept of equilibrium. Prior to that time, it was usually found that the derived demand for such things as producers' equipment and inventories provided theories of unstable or cumulative processes, but not of cyclical movements. Turning points in these processes could be explained only by introducing new factors. Development of the theory

require no special explanation. His conception of a normal level of activity differs from the one accepted in this paper, however, in that it assumes full employment, apart from certain monopolistic restrictions.

[8] See, *e.g.*, the discussion of the acceleration principle in the *Journal of Political Economy*, Volume XXXIX (1931): Ragnar Frisch, "The Interrelation between Capital Production and Consumer-Taking," (Oct., 1931), pp. 646-54; J. M. Clark, "Capital Production and Consumer-Taking—A Reply," (Dec., 1931), pp. 814-17. The advance in business cycle theory brought about by the theory of employment is clearly seen by comparing these earlier writings with later work on the same subject, such as P. A. Samuelson, "A Synthesis of the Principle of Acceleration and the Multiplier," *Jour. Pol. Econ.* (Dec., 1939), pp. 786-97. See also, R. F. Harrod, *The Trade Cycle* (Oxford, 1939).

of employment changed all this by showing, first, that the economic system is probably a stable system, and, second, that cyclical movements of income, employment, and prices are inherent in the nature of the system, and do not depend upon special circumstances.

The importance of the modern theory of employment in business cycle analysis is well illustrated by recent changes in the theory of inventory cycles. I turn now to a consideration of these developments.

II. *The Theory of Inventory Cycles*

In the period which preceded the development of the theory of employment, the most extensive discussion of inventory cycles was that of Mr. R. G. Hawtrey. It is well known that Hawtrey regards the attempts of business men to increase or decrease their inventories as the principal cause of economic expansion and contraction. In this respect, his analysis of business cycles differs from that of most other economists, who usually consider inventory fluctuations as one among many such causes. Nevertheless, from one point of view, the Hawtrey analysis is typical of the business cycle studies which preceded the modern theory of employment: his theory is essentially a theory of cumulative processes of expansion and contraction, and the turning points in these cumulative processes depend upon certain limiting factors which become operative only in periods of high prosperity or deep depression.

The essential feature of the Hawtrey theory is a slightly qualified acceptance of Say's Law. In one explanation of his theory, he says:

> The money of which demand consists is provided directly or indirectly from people's incomes. The total of the incomes which people in any community have to spend I call the *consumers' income;* the total which they do spend I call the *consumers' outlay.* Consumers' income and consumers' outlay tend to be equal. The means of payment (comprising money and bank credit), which people have on hand, I call the *unspent margin.* Consumers' income and consumers' outlay can only differ in amount when the unspent margin changes.
>
> The term consumer as here used must not be interpreted too narrowly. People spend their incomes not only on consumable products, but on investment. "Consumer" must be regarded as including "investor" and the consumers' outlay as including investment. For money invested is *spent.* It is spent on capital goods.[9]

With this conception of total demand, it is easy to see how a small disturbance may start a cumulative process of expansion or contraction. Suppose, for example, that business men decide to increase their inventories. In order to do so, they must produce more than they expect to

[9] R. G. Hawtrey, *Trade and Credit* (New York, 1928), pp. 83-84.

sell. But in expanding output, the business men also expand income by the same amount. Hawtrey argues that this increase of income is either spent on consumption or saved, and that most, if not all, of the added savings constitute a demand for capital goods. Considering both the demand for investment goods and the demand for consumers' goods, total demand therefore increases *pari passu* with the increase of income. As a result, producers find that their attempt to increase inventories has been frustrated by a corresponding increase in demand. Their subsequent production plans include not only a level of output sufficient to satisfy the higher demand, but also an additional output for inventories. Again, however, demand is increased by the higher level of output, and inventories remain low despite attempts of business men to increase them. Thus a cumulative process of expansion is set in motion, and continues as long as business men attempt to increase their inventories.

A similar argument is applicable to the process of contraction. When business men attempt to reduce inventories by producing less than they expect to sell, they find that their total sales are correspondingly reduced, and inventories remain unchanged. "The dealers want to diminish their stocks of goods, but, when they restrict the orders they give to producers, the consumers' outlay falls off, and their sales are so reduced that their stocks are little diminished."[10]

Acceptance of Say's Law thus leads to a conception of the economy as an unstable system in which a slight contraction leads to further contraction, and a slight expansion sets off a cumulative upward movement. Mr. Hawtrey's theory is less extreme than this, for he allows total demand to differ from total output to the extent that there is a change in the unspent margin. When production and income are increasing, this means that the increase in demand is slightly less than the increase in the value of output, since a small part of the new income will be added to idle balances. In discussing the effects of expansion, Hawtrey says:

> A little of the [added] money would remain behind in balances, for a man whose earnings are increased would hold on the average somewhat larger amounts of cash in hand than before; but probably much the greater part of the additional income is immediately in one way or another spent. . . .
> . . . The net effect in increasing stocks will [therefore] be limited to so much of this income as is kept in hand by the recipients in balances.[11]

An increase in unspent balances constitutes a leakage from the stream of income, and if carried to its logical end, analysis of this

[10] *Ibid.*, p. 93.
[11] *Ibid.*, pp. 91-92.

leakage might, with modifications, lead to a theory of inventory cycles which does not differ substantially from the modern theory. Despite this fact, it is obvious from his writings that Mr. Hawtrey envisaged an unstable system. At one point, in fact, he speaks of the credit system as "inherently unstable." And throughout his writings he discusses "vicious circles" of expansion and contraction. In Hawtrey's opinion, these periods of expansion and contraction are brought to a close by changes in the credit policy of the banking system. During a period of rising income and prices, the banks find their cash reserves diminished both by an increase in deposits and by a drain of cash into circulation. Hawtrey argues that sooner or later the reduction of their reserves forces the banks to restrict credit. This means, among other things, that interest rates tend to rise, and with higher interest rates the carrying costs of inventories are considerably increased. Traders attempt to economize by reducing their inventories, and, as a result, the cumulative process of contraction described above is set in motion. During the period of contraction, debts are gradually liquidated, bank deposits are reduced, and cash flows back into the banks as a consequence of the decline in income and prices. Eventually the increased liquidity of the banking system leads to lower interest rates and to more liberal lending policies in general. Finding their carrying costs reduced, traders decide to hold more inventories, and a period of economic expansion ensues.

The foregoing description of Hawtrey's theory of inventory cycles is intended primarily to emphasize the assumption of instability which is inherent in this theory. Hawtrey envisages an economic world in which a slight expansion or contraction leads to further expansion or contraction in a cumulative process which is reversed only by the action of the banking system. In discussing the end of a period of prosperity, he says:

> . . . If the restriction of credit did not occur, the active phase of the trade cycle could be indefinitely prolonged, at the cost, no doubt, of an indefinite rise of prices and an abandonment of the gold standard.[12]

This point of view, as noted earlier, is a logical consequence of Say's Law of Markets. If the proposition is accepted that supply creates its own demand, which means that savings constitute a demand for capital goods, then it is obvious that production cannot outrun demand, for any increase in output will be accompanied by a corresponding increase in demand. It follows that any attempt by business men to increase their inventories must lead to a cumulative process of expansion, while every attempt to reduce inventories must result in cumulative con-

[12] *Ibid.*, p. 98.

traction. Thus Hawtrey's theory of inventory cycles is intimately connected with the classical proposition that general overproduction is impossible.

It is hardly necessary to point out that Say's Law of Markets is no longer a widely accepted economic doctrine. One of the principal achievements of the modern theory of income and employment was to emphasize that savings do not constitute a demand for capital goods; in large part, they constitute simply a demand for legal evidences of wealth, such as stocks, bonds, and savings accounts. A substantial portion of the demand for investment goods comes from business men, and is not directly related to the level of income. It is therefore entirely possible, indeed at most times probable, that an increase in total output will increase the total supply of goods more than it increases total demand; some of the increased income will be used in the purchase of previously-existing assets, and will not represent a demand for currently-produced goods. Hence, general overproduction is a possibility which must be taken into account.

If Say's Law of Markets is rejected, what happens to the theory of inventory cycles presented above? A partial answer to this question may be found in an earlier paper, in which I developed a simple theory of inventory cycles based upon the modern theory of employment.[13] The assumptions in that paper with respect to the behavior of business men were very similar to those of Mr. Hawtrey. It was assumed, for example, that business men make production plans in anticipation of future sales, and that anticipated sales depend partly upon the present level of sales and partly upon the rate of change of such sales. It was assumed further that the amount of inventories which business men desire to hold is related to the level of their sales. The theory of inventory cycles which I developed differs from Hawtrey's theory primarily in its rejection of Say's Law. In place of the proposition that supply creates its own demand, I substituted the proposition that only a part of total demand is directly related to the level of income. In other words, it was assumed that income receivers use part, but not all, of their increments of income in the purchase of commodities, and that income which is used to purchase legal evidences of wealth does not represent a demand for current output.

To simplify the discussion, the interval of time under consideration in my analysis was divided into "production planning periods," and it was assumed that the rate of output in each planning period is determined at the beginning of the period and remains unchanged until the beginning of the next period. The economy was divided into consumers'

[13] Lloyd A. Metzler, "The Nature and Stability of Inventory Cycles," *Rev. Econ. Stat.*, Vol. XXIII (Aug., 1941), pp. 113-29.

goods industries and investment goods industries, and it was postulated that within any given planning period the demand for consumers' goods depends upon the level of total output during that period. Finally, the assumption was made that the demand for all investment goods is autonomous, in the sense that it is taken as a given factor in the situation, independent of the level of income. This last assumption is obviously not necessary, since the induced demand for investment goods may be included with the demand for consumers' goods in a general "propensity to spend." Nevertheless, it will simplify the subsequent analysis without altering the final results if we retain the assumption that all investment (except inventory investment) is non-induced or autonomous.

With these assumptions, it is possible to follow through the sequence of events in a typical inventory cycle. Suppose that the economy is initially in equilibrium, in the sense that the total output of goods and services is equal to the total demand for such goods and services. Consider what happens when this equilibrium is disturbed by an increase in the demand for and supply of non-induced investment. Although equilibrium is reëstablished in the investment industries (since demand and supply increase in the same proportion), producers of consumers' goods find their stocks depleted by the increase of income and demand. This is characteristic of the early prosperity phase of an inventory cycle; producers are unable to adjust their output immediately to the increase in demand, and stocks therefore decline. In subsequent periods, production plans are revised upward, for two reasons: (1) to meet the anticipated higher level of demand; (2) to replenish depleted inventories. As output is increased, total demand also rises, and business men find that their stocks remain abnormally low despite their efforts to increase them.

Up to this point, the description of inventory cycles closely resembles Mr. Hawtrey's theory; the rise of income and employment induced by the attempts of business men to expand their inventories has much in common with the cumulative expansion envisaged by Hawtrey. Nevertheless, there is an important difference between the two theories: Hawtrey assumes that in the absence of outside influences the cumulative expansion could continue indefinitely, whereas in the present theory the expansion itself sets up conditions which make a later decline inevitable. It is true that as income rises, total demand also rises, but the increase in the latter is smaller than the increase of total output. Inventories therefore begin to accumulate slowly, although actual additions to stocks are smaller than producers intend them to be. Even when income has risen to a level appropriate to the new level of non-induced investment, however, inventories remain abnormally

low. This means that total income must rise still further, since business men attempt not only to produce enough to satisfy the higher demand at the new equilibrium but also to produce an additional amount for replenishing their depleted inventories. In other words, in the process of expansion from the old equilibrium to the new, output and employment inevitably "overshoot the mark."

Once the level of income has risen above its new equilibrium, a subsequent decline is inevitable. The inflated level of income is sustained and increased only by investment in inventories, and such investment cannot be continued indefinitely. As income rises, inventories also rise, and this process continues until a normal relation between inventories and expected sales is established. Thereafter, business men plan no further increases in stocks; they attempt, instead, to produce only what they expect to sell. Since production plans in earlier periods included production for stocks as well as for sale, the decision to produce only for sale means an absolute decline in total output. As a result, income in the hands of consumers declines, sales are reduced, and a period of general contraction develops. The contraction is accelerated by the fact that sales fall below expectations, since this causes inventories to become abnormally large and business men therefore reduce output still further in an attempt to restore their stocks to a normal level.

In the early stages of depression, inventories continue to rise despite attempts to reduce them. In other words, the contraction of output is more than offset by an induced contraction of sales. For a time, the attempt to reduce inventories is therefore self-defeating, serving merely to accelerate the downward movement of output and income. When output and employment have declined to the normal or equilibrium level at which savings are equal to autonomous investment, commodity stocks are still abnormally high. It follows that a further decline is inevitable, since business men will continue to reduce output in an attempt to dispose of their excess stocks. Thus income falls below equilibrium in the downward phase of an inventory cycle, just as it rose above equilibrium in the prosperity phase.

The downward movement cannot continue indefinitely, however, for eventually the business men will succeed in reducing their stocks. To explain why this is true, it is convenient to refer again to the static theory of employment. The fact that income receivers spend only part of their incomes means that, as output declines, the induced reduction of sales is smaller, in absolute amount, than the decline of output. Inventories are slowly reduced, and in subsequent periods the gap between production plans and expected sales is correspondingly narrowed. In other words, when the business men find their stocks de-

clining, they are relieved of the necessity of planning large stock reductions in the future, and can make their production plans more nearly in accord with what they expect to sell. Income continues to fall, since some further reduction of stocks is still considered desirable, but the *rate* of decline is arrested.

The downward movement continues, at a reduced rate, until inventories have fallen to their normal level, in relation to sales. At this point, business men plan no further reductions in stocks. Since production is now equal to expected sales, whereas in earlier periods it was less than sales, it follows that income must begin to rise. Thus the mere fact that inventories have fallen to a normal level is sufficient to account for a turning point in the cycle from depression to recovery.

The cycle is now complete. I have explained how the prosperity phase of an inventory cycle inevitably leads to a crisis and to depression, and how the depression must be followed by a period of prosperity. The self-perpetuating character of such cycles is thus established. When the equilibrium of income is disturbed, output and employment tend to fluctuate about a new equilibrium in a series of damped cycles. In describing these cycles, nothing has been said about the influence of the banking system or of other limiting factors. The turning points of the cycle do not depend upon such things as changes in credit policy or bottlenecks in the supply of resources. In the prosperity phase of the cycle, for example, it is not necessary to assume a policy of credit restriction in order to show how prosperity leads to a crisis and to depression. The crisis is inherent in the nature of the expansion process, since this process invariably raises output above the stationary or equilibrium level. An analogous argument holds for the depression phase of the cycle. As income falls below equilibrium, inventories are gradually reduced, and this is sufficient to account for a revival, quite apart from changes in bank policy or changes in the supply of resources.

Thus, the cycles described above are distinguished from Mr. Hawtrey's inventory cycles primarily by the nature of their turning points. Inventory cycles, in the present theory, are inherent in the structure of production and sales, whereas Hawtrey envisages the turning points as a result of credit policies and cost changes which become operative only in the extremes of prosperity and depression. The present theory can easily account for mild but persistent fluctuations of income about a moving equilibrium, even with no changes in credit policy, wage policy, or conditions of employment. By contrast, the Hawtrey theory speaks of "vicious circles" of expansion and contraction, which can be reversed only by the influence of limiting factors. In Hawtrey's theory, the length of a period of expansion is governed largely by the flexibility of the banking system and by the extent of unemployment

when the expansion begins; the expansion is not brought to a close until the banks are forced to restrict credit. In the present theory, on the other hand, it is necessary to explain the length of the average cycle in terms of factors which are a part of the process of production and sales. While changes in banking policy may play some part in the turning points of the cycle, much greater emphasis is placed, in the present theory, upon the relation of output to sales, and upon the relation of sales to production plans.

III. *Conclusion*

The changes in the theory of inventory cycles described above are typical examples of recent changes in business cycle theory in general. They illustrate the far-reaching influence which the theory of employment has exerted upon dynamic economics. As a result of these developments, the Wicksellian concept of an unstable cumulative process which was formerly the basis of many business cycle theories has in large part been replaced by the concept of oscillation about a normal or equilibrium level of income and employment. The normal level itself has been more clearly defined than was possible at an earlier date, and the relation of the actual level of income to this norm has assumed increasing importance.

While the cycles described by theories such as the theory of inventory cycles are conceptually perpetual, in practice they are probably highly damped. In the absence of disturbances to the underlying conditions of equilibrium, such cycles would tend to disappear. Moreover, the amplitude of any given cycle is directly related to the size of the initial disturbance. Small disturbances produce only small cycles, which means that large cyclical movements can be explained only by explaining the large initial disturbances. From this point of view, the cycle theories described in the present paper are incomplete. They explain how the economic system adapts itself to changes in the conditions of equilibrium, and give strong reasons for believing that the process of adaptation will be cyclical, but they do not explain the disturbing factors which initiate the cycles. In the words of Professor Schumpeter, they are "waves of adaptation."[14]

A wave of adaptation may be started by a change in any of the economic relations which determine the equilibrium level of income and employment. Changes in consumer tastes, for example, or in methods of production, may upset an existing equilibrium and lead to cyclical movements about a new equilibrium. It seems likely, however, that a very large proportion of actual business cycles has been initiated

[14] Schumpeter, *op. cit.*, pp. 179-80.

by disturbances in the willingness of business men to invest. The ultimate cause of cyclical fluctuations must, therefore, be sought in the investment motives of the business world, or, in other words, in the causes of a fluctuating propensity to invest. But this complex problem is beyond the scope of the present discussion. In describing cycles of adaptation, and in comparing present theories of such cycles with earlier theories, changes in the propensity to invest have simply been accepted as disturbing factors to which the economic system eventually adapts itself. A complete explanation of all movements of income, prices, and employment would of course have to include an explanation of these disturbing factors, as well as a discussion of the adaptation process described above.

DEBT MANAGEMENT AS AN INSTRUMENT OF ECONOMIC POLICY[1]

By HENRY C. WALLICH*

The popular view of the post-war debt seems to be that it is a heavy burden (that is, a restrictive force) and that at the same time it is inflationary (an expansive force). This view is perhaps not as inconsistent as might appear at first sight. The debt, for instance, may be economically restrictive but politically inflationary, its economic effect engendering a political movement to get rid of it by means of inflation. Alternatively, the debt may be deflationary most of the time but may provide the fuel for inflationary spurts once in a while. A calmer view, however, suggests that there are deflationary and inflationary forces inherent in the debt which are operative at all times but which ordinarily neutralize each other to some extent. This being so, it becomes important to develop means of harnessing these forces and thereby convert what now looks like a bogey into a useful instrument of economic policy.

I. *The New Rôle of Debt Management*

In this study I intend to investigate some of the means of employing debt management as an instrument of economic policy. In doing so I shall treat debt management as distinct from, though perhaps not equal in rank to, fiscal policy and monetary policy. This emancipation of debt management from the sovereignty of fiscal policy, to which it is commonly regarded as belonging, is suggested by aspects of analysis as well as of convenience. The enormous rise in the size of the debt, and its wide distribution, has made it possible to exert a new type of influence upon national income, through changes in the form in which individuals and institutional investors hold part of their assets. The full implications of this new effect are still very largely unexplored, and it seems likely that, for the time being, its importance will not be primary. One must recognize, however, that it exists, and that it rests upon a principle different from monetary and fiscal policy, if we regard the effect of monetary policy upon national income as deriving mainly from variations in the volume and availability of money, and that of fiscal

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[1] This paper was delivered as a lecture before a meeting of the National School of Economics of the University of Mexico, in Mexico City, May, 1945.

policy mainly from direct injections into, and drains from, the income stream, via government expenditures and taxation.

The desirability, on analytical grounds, of distinguishing between fiscal policy and debt management is further emphasized by the resulting convenience and clarity in tracing the effects of debt management upon the economy. Almost every debt operation inevitably has repercussions upon monetary conditions and upon the budget. In this sense, debt management becomes an aid—sometimes an obstacle—to monetary and fiscal policy. Much of this paper will be concerned with elucidating these relationships. In this, it is helpful, though by no means essential, to adhere to the distinction suggested and to treat debt management as a separate instrument of economic policy.

Separate emphasis upon debt management finally is suggested also by the general economic, political, and social significance which the debt has acquired. That a public debt the service charges on which amount to between 5 and 6 billion dollars constitutes a political problem of the first order goes without saying. The distribution of the debt, and the tax burden which it imposes, may produce important realignments among pressure groups and may lead to a re-weighting of the relative interest which different groups have in various basic economic and social policies. The handling of the debt will decisively influence the future of the banking system, and the interest rate policies, in particular, into which the debt may drive us will be of paramount importance for the future of the *rentier* class and of many educational and other non-profit institutions. In recent discussions,[2] varying em-

[2] Numerous important contributions to the study of the post-war debt problem have appeared in recent months. *Cf.* Charles C. Abbott, "Management of the Federal Debt," *Harvard Bus. Rev.*, Vol. XXIV, No. 1 (Autumn, 1945), pp. 97-108; "Commercial Banks and the Federal Debt," *Am. Banker*, Vol. CX, No. 227 (Sept. 29, 1945), pp. 8-15; Evsey D. Domar, "Burden of the Debt," *Am. Econ. Rev.*, Vol. XXXIV, No. 4 (Dec., 1944), pp. 798-827; Aubrey C. Lanston, "Crucial Problem of the Federal Debt," *Harvard Bus. Rev.*, Vol. XXIV, No. 2 (Winter, 1946), pp. 133-50; Simeon P. Leland, "Management of the Public Debt After the War," *Am. Econ. Rev.*, Vol. XXXIV, No. 2 (June, 1944), suppl., pp. 89-132; Abba P. Lerner, "Government Spending, Public Debt and Postwar Taxation," *Internat. Postwar Problems*, Vol. II, No. 1 (Jan., 1945), pp. 13-34; Hedwig Reinhardt, "On the Incidence of Public Debt," *Social Research*, Vol. 12, No. 2 (May, 1945), pp. 205-26; Lawrence H. Seltzer, "The Problem of Our Excess Banking Reserves," *Jour. Am. Stat. Assoc.*, Vol. 35, No. 209 (Mar., 1940), pp. 24-36; Carl Shoup, "Postwar Federal Interest Charge," *Am. Econ. Rev.*, Vol. XXXIV, No. 2 (June, 1944), suppl., pp. 44-85; Henry C. Simons, "On Debt Policy," *Jour. Pol. Econ.*, Vol. LII, No. 4 (Dec., 1944), pp. 356-61; William Withers, *The Public Debt* (New York, Day, 1945); "The Public Debt and the Banks," Institute of International Finance of New York University, *Bull. No. 137*, May 8, 1945.

Also see various contributions in *Public Finance and Full Employment* (Post War Economic Studies No. 3, Board of Governors of the Federal Reserve System, Washington, 1946).

phasis has been placed upon different aspects of debt management, and the aims of debt management have sometimes been defined with respect to rather specific and hence limited purposes. The importance of the debt and the great potentialities which it entails seem to justify viewing its management in the broadest possible terms and regarding it as a major element of national economic policy.

Nothing of this, of course, implies that decisions on the debt should be arrived at independently of monetary and fiscal policy. In particular, I am very far from suggesting that the effective management of the post-war debt requires the setting up of still another government agency. On the contrary, the close interrelation between fiscal policy, monetary policy, and debt management calls for a high degree of integration in policy making. At the present time, we quite obviously do not have this integration. Debt management rests with the Treasury, monetary policy is divided among Federal Reserve, Treasury, and a variety of government lending institutions, and fiscal policy, while primarily made by Congress, is influenced in some measure by practically every other branch and sub-division of the government except the Supreme Court. If there is any institutional rearrangement which the present analysis seems to suggest, it would be the establishment of an office or cabinet post which could coördinate and direct all these activities.

Some Characteristics of Debt Management. Before entering upon this discussion, it will be well to refer briefly to certain general features of debt management. Unlike monetary and fiscal policy, debt management does not lend itself particularly to being worked out in general theoretical terms. Because it is intimately tied up with the existing size and character of the debt, the discussion must normally start from an actual situation and will always have a tendency to go into particularizing detail. For this reason it probably will appeal less to the economic theorist than monetary and fiscal policy, but this should not detract from its practical effectiveness. On the contrary, fiscal and particularly monetary policy may well have suffered because of their adaptability to abstract theorizing.

The effects of debt management are largely of the qualitative sort, not easily amenable to quantitative determination. Variations in the character and distribution of the debt, in other words, will make security holders more or less inclined to change their rate of expenditure, but it can rarely be predicted how much. The impact of fiscal policy, on the other hand, is primarily quantitative: certain amounts are injected into the income stream, other amounts are taxed away, and these again can be broken down into consumption and saving. Monetary policy

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probably occupies a middle ground in this respect.[3]

Debt management is less flexible an instrument, in many respects, than either monetary or fiscal policy and as such suited more to the long-run than to the cyclical approach.[4] It takes time to effect substantial changes in the character and distribution of the debt, and an effective debt policy therefore requires a fairly clear formulation of the policymaker's long-run expectations. It is unavailing to point out that such expectations are in danger of turning out false; any given debt policy will have its long-run effects, and to avoid formulating the expectations upon which the policy rests merely means that the effects will be produced, as it were, by default.[5] Nor is it necessary to formulate long-run expectations in great detail; what needs to be clarified is mainly whether the dangers to be guarded against lie primarily on the side of inflation or contraction. Uncertainty in this respect would suggest to some extent the continuance of a flexible policy; it must be remembered, however, that if "flexibility" is interpreted to mean emphasis on short-term financing, a flexible debt policy may in itself have predominantly inflationary implications. In formulating long-run expectations, it is clear that responsible management cannot afford to go overboard for an extreme theory; in fact, one may say that our own economic thinking, at least until very recently, was rather too strongly impressed with the danger of stagnation. What will be needed is mainly a proper orientation of our preparedness in the direction of what is regarded as the chief danger.

The aspects of debt management to be discussed in this paper are the following:

1. Debt management "for the debt's sake";
2. Debt management as a limiting factor of monetary and fiscal policy;
3. Debt management as an aid to monetary and fiscal policy;
4. Debt management as a direct influence upon national income.

The discussion of particularly the third and fourth sections will largely be governed by the opportunities for a reshaping of the debt structure offered by the composition and distribution of the post-war debt.

[3] In so far as debt management is also an important determinant of the cost and volume of money, its effects are akin to those of monetary policy.

[4] This is not to deny that important anticyclical effects can also be achieved. *Cf.* Leland, *Am. Econ. Rev.*, Vol. XXXIV, No. 2, suppl., pp. 89-132.

[5] In some respects it may be possible, as Professor Abbott suggests, to minimize the effects of the debt and to make the economy behave as it would if there were no debt. But in a broader sense, I am inclined to think that we should concentrate more on using the debt as an instrument of positive policy than on trying to immunize ourselves against it. *Cf.* Abbott, *Am. Banker,* Vol. CX, No. 227, pp. 8-15.

II. *Debt Management "For the Sake of the Debt"*

"Taxation for revenue's sake" has become a slogan to characterize a kind of backward fiscal attitude not in keeping with the enlightened trend of the times. No doubt the same flavor will come to be attached to debt management "for the debt's sake" and rightly so, in so far as this notion, phrased in one form or another, has been regarded as the chief standard of debt policy. Nevertheless, the parallel between taxation and debt management is not complete, and it would be dangerous to go too far in subordinating the familiar considerations of economy, soundness, and convenience to the broader aspects of debt management.[6]

The taxing power is a durable instrument, capable of standing much abuse, but the public credit is a sensitive plant. Before the First World War the public credit of some of the central European countries was just as good as ours has ever been; nevertheless, it was completely destroyed within a few years. It will take us some years to determine how far our own credit has been strained by the war, *i.e.*, whether the confidence primarily of non-bank investors has in any way been impaired, and we shall therefore have to proceed cautiously. Hence, the first consideration of the debt administrator must be the preservation of the instrument he is using—the public credit. Any "tampering" with public credit, such as compulsory modifications of debt contracts, or any other measure which might impair the high regard which investors now have for the soundness of government obligations must be avoided.[7] This injunction probably will block some of the more ambitious and ingenious schemes for reorganizing the debt. Nevertheless, it should be strictly observed, for the possible adverse consequences even of a very large debt are unimportant compared to the calamity which a weakening of the public credit would imply.

From this point of view it is perhaps just as well that considerations of economy, soundness, and convenience are always likely to weigh more heavily with the men responsible for the administration of the debt, chiefly the Secretary of the Treasury, than with economists bent upon seeing "the broader picture," the writer of this paper among them. Under the heading of soundness should be mentioned, in addition

[6] These considerations are more or less the same as any private borrower would have in mind in arranging his financing: to minimize cost, to avoid the risk of being embarrassed or worse (though here the traditional fiscal viewpoint is rather broader), and to maintain a good credit standing.

[7] I would not regard the Seltzer Plan—freezing of part of the commercial banks' holdings by means of bond reserve requirements—as necessarily falling under this injunction, although the repercussions of such a measure upon the morale of other large holders would need to be watched.

to the religious observance of contract terms, the question of how much of the floating debt ought to be funded. This matter has not figured too prominently in recent discussions, because it has often been interpreted to depend upon whether or not there is any danger that the government might have difficulty in renewing its short-term maturities, which is very unlikely. Actually, classical concern over a floating debt was aroused by precisely the same danger which we now have in mind when we refer to excessive bank purchases of government obligations, whether short or long term. In a world where banks were not accustomed to buy medium- or long-term government securities but did buy or discount freely all kinds of short-term obligations, the issue of floating *versus* funded debt was drawn along much the same lines as the present issue of bank *versus* non-bank financing. Today, therefore, the question of whether or not part of the short-term debt should be funded very properly is subordinated to that of what to do with the portion of the debt held by the banks.

The issue of economy in debt administration, which likewise will tend to weigh rather heavily in the administrator's judgment, should not be allowed to obscure the broader demands of economic policy. There seems to be some danger that popular sentiment may become overimpressed with the cost aspect of the debt. Congress, then, might force the Treasury into "interest saving" policies—the economic cost of which in other directions could be much higher. This fear of public and Congressional reaction to high debt charges runs through many present-day writings.

A related danger is that the Secretary of the Treasury himself may become overimpressed with the importance of economizing on interest—through pride of achievement, or because it facilitates the rest of his job. He will have to balance carefully the unquestioned importance of keeping interest charges down against the broader demands of economic policy.

As to convenience of debt management, there will always be a good deal of freedom for practical arrangements of maturities, call-dates, and similar features within the requirements of any given policy, which at the same time would meet the needs of the market and maintain the demand for government securities. There is perhaps some danger that such factors will tend to displace major policy objectives in the administrator's mind; frequent checking up on their compatability with these objectives will, therefore, be in order.

III. *Debt Management as a Restraint Upon Fiscal and Monetary Policy*

The mere existence of a large debt is likely to color and influence our approach to many problems, even though it need not altogether force

our hand. This is particularly true of our views of the optimum level of income. A large and particularly a growing debt are not easily borne without a large and growing national income.[8] Fiscal and monetary policy, therefore, will be under constant pressure to produce such an income.

Full employment, of course, will in any case be the goal toward which these two policies would normally aim. In the long run, however, full employment does not imply a clear-cut income goal. If full employment is produced, in part, by reduction of hours, lengthening of the educational period, and going slow on the introduction of labor-saving devices, it will carry with it a much lower income than might otherwise prevail. A large and growing debt, calling for maximum income, discourages the use of such devices and puts correspondingly heavier pressure upon fiscal and monetary policy.

Should we ever be faced with the choice which Dr. Williams fears to be ahead,[9] between an income rising rapidly because of technological progress but accompanied by technological and cyclical unemployment, and a steady level of full employment obtained at the expense of less rapid progress in technology and income, our choice may be seriously affected by the exigencies of the debt.

By the same token, the risks involved in passing through a cyclical depression are increased. In the United States, depressions have traditionally yielded a large crop of inflationary panaceas. During the depression of the early thirties, some fairly innocuous ones were converted into law. In future, stronger ones might be resorted to. They are likely to be more effective in stimulating the economy, by virtue of the inflationary potential created by the debt,[10] and more dangerous if pronounced inflation should ensue, because of the greater shifts in wealth and income distribution which a pronounced rise in the price level would cause in a high-debt economy.

In addition to the bias which the debt introduces into income policy, it also reduces our freedom of price policy. Any fall in the price level will increase the burden of the debt. A return to the pre-war price level, which some sectors of the public might consider desirable and perhaps even regard as the natural thing, becomes undesirable from this angle, even if it were possible in other respects. On the other hand, the possi-

[8] To be sought, of course, is a growing real income, even though a growth merely in money income would also reduce the burden of the debt.

[9] John H. Williams, "Free Enterprise and Full Employment," in *Financing American Prosperity* (New York, Twentieth Century Fund, 1945), p. 353.

[10] The inflationary potential of the debt as referred to in this paper comprises not only the liquidity of non-bank investors resulting from government security holdings, but also the additional money supply created by bank holdings.

bility of reducing the debt burden by raising the price level lends an unholy appeal, for certain groups, to measures aiming in that direction.

Nevertheless, while the debt confronts us with the need to aim at a maximum income, it makes it increasingly dangerous to push the economy to the limit of its productive capacity. The inflationary potential of the debt is a latent element of instability which may come to life when other factors begin to work in the same direction. To be on the safe side, those responsible for fiscal and monetary policy will have to maintain a certain slack in the system, a reserve of productive capacity to act as a shock absorber. Again fiscal and monetary policy find themselves inhibited, to some extent, by the debt.

Restraints of a different sort are imposed specifically upon fiscal policy, for instance, by the absorption of part of the country's taxable capacity through the debt service. Interest payments, of course, do create additional taxable income, but the added tax yield can only be a minor fraction of that income. Given the fact, therefore, that the total revenue is limited by the willingness of Congress to levy taxes, the volume of exhaustive expenditures is restricted by the need to take care of the transfer payments required by the debt service. Exhaustive expenditures, even in a balanced budget, constitute an equivalent contribution to national income.[11] Transfer payments, however, do not. The possibility of raising national income by means of a high balanced budget is therefore curtailed by the debt, apart from the limitations imposed upon particular types of desirable expenditures. If we think in terms of tax reduction to stimulate investment, we likewise find ourselves in part thwarted by the long-run need—according to standards other than fiscal surrealism—to match debt service with taxation.

Finally, the debt service hampers the endeavor of fiscal policy to make the budget more progressive, or less regressive, *i.e.*, to take as much as possible from the high income groups and to channel expenditures (and the benefits which these expenditures yield) as much as possible toward the lower groups. A very considerable proportion of interest payments tends to be saved, because the bulk of the debt is owned by wealthy individuals and by banks. Although the leakage from the income stream which results should not be overestimated, it undoubtedly exists. Since our present tax structure already weighs heavily upon the higher income groups, very little can be done in the way of tax readjustment to reduce this new leakage.

The impediments, however, which the exigencies of the debt are likely to put in the way of fiscal policy are probably minor compared

[11] *Cf.* Alvin H. Hansen and David Perloff, *State and Local Taxation and the National Income* (New York, Norton, 1944), pp. 245-46; and my article "Income Generating Effects of a Balanced Budget," *Quart. Jour. Econ.*, Vol. LIX, No. 1 (Nov., 1944), pp. 78-91.

with the obstacles which it may create for monetary policy. The latter, already pushed into the background by fiscal policy, may well become one of the foremost victims of the debt, unless new techniques and new fields of application can be developed.

The great liquidity created by the debt has removed many enterprises from the need to borrow from banks and has thus made them less amenable to monetary controls. The banks, in turn, have their heavy government portfolios as a first line of defense against credit restriction by the monetary authorities. They could, for instance, let some of their short-term holdings run off and thus create a margin out of which to make commercial loans. If the Federal Reserve then should not refinance the government's short maturities, short-term rates would go up, but even this need bring no substantial restriction of bank credit. At higher rates the public would probably take over a larger part of the floating debt, again giving the banks free funds for the commercial lending. Since credit control has operated more effectively through reduction in the availability of money than through an increase in its cost, the banks probably would find a ready demand, at slightly higher rates, for a substantial proportion of the loans that were being demanded at lower rates. Higher short-term rates, moreover, might bring Federal Reserve policy into conflict with Treasury policy, a point to which we shall return presently.

Related considerations apply if an attempt should be made to control credit by operating on long-term maturities. Again, within reasonable limits, it is the availability of funds rather than their cost which counts. The volume of idle investment funds, created by the debt, is likely to be so great, and the hunger for securities with yields slightly better than present ones so intense, that a restriction in the availability of funds will be hard to bring about. Moreover, the position of the banking system must be considered. Although the harm which arise in long-term rates could do to the banks has sometimes been greatly exaggerated, in view of the conservative structure of their portfolios, this aspect is not altogether without importance. In addition, the monetary thinking of the last ten years, with its emphasis upon low rates as a means to check secular stagnation, has made us hesitant to raise long-term rates for purposes purely of cyclical control.

In the case of long- as well as of short-term rates, the rise in the cost of debt service has made it an increasingly weighty factor in the determination of monetary policy. We are dealing here with a conflict between monetary policy and debt management for the sake of the debt in its economy aspect. With something like 70-80 billion dollars of our 250-275 billion post-war debt carrying maturities of less than one year, a rise in short-term rates by ½ per cent could easily

add 1–2 billions to the annual cost of the debt. Even though credit restriction would have to be resorted to only in a period of rising national income, with a corresponding improvement in tax yields, the extra burden would be quite noticeable.

If short-term rates are raised temporarily, the increase in service costs is rapid but transitory. If long-term and medium rates go up, the jump in annual interest payments from this particular source is not so steep, but neither is it transitory. The Treasury will be particularly unwilling to permit such an increase if it has to finance a substantial deficit—perhaps not likely during a peacetime boom—or if it is attempting to fund some of its short-term indebtedness. But even when there is no deficit, and no change in the maturity structure of the debt is contemplated, the mere maintenance of that structure will call for the continuous issuance of a heavy volume of long-term instruments. With something like 40 per cent of a 250-275 billion debt in securities maturing after eight years or more, as much as 6 to 10 billions of government bonds would have to be sold annually. In other words, the mere maintenance of the debt is likely to put a substantial premium upon low long-term rates and to weigh heavily against a policy of raising long-term rates.[12]

It is true that these considerations of debt management for the sake of the debt ought not to outweigh the broader needs of monetary control. If a general rise of interest rates is regarded as the best means of stopping inflation, it should certainly be worth an extra 2 billion or thereabouts in transfer payments. A general rise in rates, however, is not likely to be looked upon with favor in the present state of our thinking. It could meet with general approval only if we had meanwhile moved into a different environment, one of normally full employment and balanced budgets. In that environment an increase in taxes to pay higher interest could be regarded with some measure of equanimity.

It may be said, therefore, that it is not only the economy motive of debt management which is likely to inhibit a cyclical monetary policy, but also the general stagnation complex which, rightly or wrongly, has been influencing our attitude. Should subsequent experience remove that incubus, the economy motive will also lose much of its force, and monetary policy will then regain much of its earlier freedom.

IV. *Debt Management as an Aid to Fiscal and Monetary Policy*

So far we have been dealing with the rather depressing prospect that fiscal and monetary policy are likely to find themselves hamstrung by

[12] In this connection, it may be worth while to point to an aspect of debt maintenance,

the existence of the debt and the inherent needs of its management. Now we come to deal with the positive side of the situation: the support which debt management can give to monetary and fiscal action.

(a) *Fiscal Policy*. The most obvious use of debt management as an aid to fiscal policy is the sale of new securities to finance a deficit which the Treasury cannot or will not cover out of its General Fund. It may be noted, however, that if the Treasury carries a large cash balance, which the contingencies inherent in its enormous demand liabilities may make advisable,[13] the nexus between a deficit and new financing may be loosened considerably, making debt management somewhat more independent. In the reverse case—appearance of a budget surplus—the nexus is even less close, since accumulation of surpluses in the General Fund is always possible instead of debt repayment. Decisions regarding the latter will tend to have mainly monetary character.

A second important use of debt management in support of fiscal policy is the variation the total amount of interest payable through appropriate gradual changes in the character or maturity of the securities outstanding. With 20 to 25 per cent of the total post-war budget going for interest payments, quite significant effects can be achieved in the way of reducing the tax burden called for by a balanced budget. It may well be, however, that the cheap money policy of the last 12 years has exhausted many of the potentialities of this line of approach, within the present institutional set-up of the debt. On the other side, there is the possibility of increasing budgetary outpayments through higher interest charges on the debt. This approach does not seem particularly interesting at this time, but it might conceivably be used as a consumer subsidy, a means of increasing the deficit without going in for additional public works or other exhaustive expenditures. Obviously, however, this would make sense only with respect to parts of the debt held by broad consumer groups. Moreover, the net effect might turn out to be deflationary, if much new saving should be stimulated by higher interest rates.

A third important service which debt management can render to

and particularly of debt repayment, which is sometimes disregarded. Decisions regarding debt repayment revolve around the question of not which securities the Treasury should repay, but which it should sell. The debt is always paying itself, with little discretion (other than the call feature) for the Treasury. Some issues mature and must be met, the rest becomes of shorter maturity and thus becomes either unsuitable for its respective holders, or at least takes on a different rôle in their portfolios. By not maintaining, through refunding operations, the amounts outstanding in any given category of maturities, the Treasury can pay off any group of holders.

[13] Cf. Abbott, *Harvard Bus. Rev.*, Vol. XXIV, No. 1, p. 101.

fiscal policy consists in modifications of the debt so as to vary the amount of interest which goes into saving. This means to attempt on the expenditure side of the budget what progressive taxation is doing on the revenue side. The limitation of an individual's annual purchases of Series E bonds to $5,000, for instance, has this effect. Another application of the same principle seems to be implied in limitations upon securities eligible for bank purchase. A good deal more could be achieved along the same lines, without depriving the banks of reasonable profits. A low-coupon bond reserve, or refinancing of the banks' maturing short-term holdings by the Federal Reserve, with an attendant increase in reserve requirements, are among the possibilities which have been discussed. The interest receipts of insurance companies might be reviewed in the same light, although the companies' obvious need for a certain rate of return on their funds makes their situation rather different.

(b) *Monetary Policy.* In almost all major countries, the public debt has become the chief medium through which monetary policy operates. Open market operations in government securities have in large part taken the place of loans on and rediscounts of commercial instruments, even where these security operations have a genuine monetary character and do not constitute disguised government financing. This is the logical outcome of the fact that governments, through their borrowings from the banking system, have themselves brought about the additions to the money supply which otherwise would have had to be created through business borrowing. In the long run, as pointed out above, monetary policy may be put out of business altogether by this development, unless it develops new tools, but meanwhile the instruments of public indebtedness provide it with its chief *modus operandi.*

At the same time, the mere existence of the public debt calls for constant action by the monetary authorities. The maturity structure of the debt shifts every day, as each maturity becomes a little shorter. Given the demand for different types of maturities, holders will be induced to rearrange their portfolios. This would cause a shift in the rate structure, unless counteracted by the authorities (or unless the rate structure were perfectly horizontal). If substantial borrowing operations are in progress, the potential unsettlement of the market is, of course, much greater.

The technique of avoiding and counteracting such unsettling effects through coöperation between the monetary and the debt authorities—in the case of the U. S. Treasury and Federal Reserve—has been developed to a fine art. The preparation of the market, the firm offer to purchase 3/8 of one per cent bills, the choice of securities to be offered, the handling of the proceeds through war loan deposit accounts,

are all parts of an elaborate technique designed to effect the transfer of at times more than 20 billion dollars in a single drive from the banks and the public to the Treasury. In Britain, somewhat different devices, including tap issues and war loan deposit accounts, are employed toward the same ends.

In wartime the coöperation which treasuries lend to central banks inevitably has as its major aim to facilitate further borrowing. Eventually, however, as deficits are eliminated, the normal aims of monetary policy can again be taken increasingly into account. Debt management, in other words, can then be used more intensively to help in regulating the money market in general and possibly to exercise certain qualitative controls.

The chief function of monetary policy, very broadly speaking, is to increase the cost and reduce the availability of money in times of boom and to do the reverse in times of depression. Debt management, in almost all of its phases, has some bearing upon the state of the money market. In a general sense, operations connected with the debt influence the money market via three channels: (1) changes in bank holdings of government obligations, which immediately or ultimately lead to changes in the volume of deposits; (2) changes in holdings of nonbank investors, which, while they leave unchanged the volume of money, are nevertheless associated with shifts between investment and transaction money $(M_2 + M_1)$;[14] and (3) shifts of funds between the banks and the Federal Reserve.[15]

In some respects, the effects of debt operations are identical with those of open market operations. This is true in so far as a shift in funds between the banks and the Federal Reserve and, hence, a change in bank reserves is involved. When the proceeds of new issues are left in war loan deposit accounts, or when, through a change in the maturity structure of the debt or by other devices, a certain proportion is shifted from the public to the banks or vice versa, bank reserves remain unchanged and only the volume of deposits is affected.

It is not only through its operations, however, that the Treasury can influence the market, but also through its authority as a policy-making agency. By letting the market know, or by merely allowing it to believe, that its intentions are of a certain sort, it can do much to bring these

[14] In the case of sales of new securities, the volume of money remains unchanged once the government has spent the proceeds; in the case of repayment, the money volume existing prior to the respective tax payments is restored.

[15] If these shifts involve a permanent increase or decrease in the Treasury's balance with the Federal Reserve, their effect likewise is permanent. Otherwise, there is only a transitory effect, terminating with the restoration of bank reserves and, if no change in bank holdings was involved, of the original money volume.

conditions about. This is more than the power of a monopsonist. The latter exploits a given supply curve by taking into account the marginal cost of his purchases—or borrowings—instead of their price. This the Treasury could hardly do, since the volume of funds to be borrowed is almost always dictated by considerations other than cost. Through its moral authority, however, the Treasury can influence the supply curve—the liquidity preference schedule—and induce it to shift within probably rather substantial limits. While in the United States no commitments have been made of quite so specific a character as those given in Britain and Canada, it is evident that the market has interpreted official policy to be one of continued low rates, and this undoubtedly has greatly influenced its willingness to continue buying low-coupon securities.

V. *Debt Management as a Direct Influence upon National Income*

Debt management can affect the expenditures of investors, and hence national income, by inducing or obliging them to change the form of their assets. Whenever the conditions on which debt can be held are changed, or whenever other conditions influencing investment behavior change, the investor must make an adjustment at several margins. An institutional investor must realign the marginal attractiveness of holding debt, or some other income yielding asset, or cash. The same is true of the wealthy individual investor. Investors with small holdings and small incomes must, in addition, consider the consumption margin and possibly that of income (leisure).

The task of debt management, from this angle, is to induce adjustments which are in accord with current economic policy, and to prevent adjustments which are not. Its effectiveness will depend, in part, on the sensitivity of the various types of investors to slight displacements in their margins, and on the elasticity of their reactions. At the same time some important effects depend on a certain inertia in the behavior of the investor. Much of the inflation-curbing effect of war bonds, for instance, probably derives from the inertia of their holders, which will cause many of them to keep their bonds even at times when the satisfaction to be obtained from consumption is somewhat higher.[16] For the effectiveness of debt management it is necessary, moreover, that not all the adjustment should take place at the cash margin—through changes in the amount of cash held by investors. Nor can debt management be effective where one of the margins is subject to violent fluctuations.

[16] Instead of inertia, one might in this case speak also of a kind of moral principle which makes many people hesitate to draw on past savings.

Such might be the case of a corporation which invests idle funds in governments but throws them out regardless of their yield as soon as the funds are needed in the business.

Since the effects of debt operations upon different types of investors are not identical, it will be convenient to discuss them with respect to each major group. We shall distinguish for that purpose (1) banks, (2) institutional investors and wealthy individuals, (3) nonfinancial corporations, and (4) small holders. Again, it is necessary to recall that in speaking of the direct influence of debt management, we are dealing with particular aspects of operations which at the same time have monetary and fiscal policy implications.

(1) *Banks.* The shifting of securities into the banking system in times of depression and the squeezing out process in case of a boom have already been discussed under the heading of monetary policy. For traditional debt management, this means concentration on short-term financing in depression, the opposite during a boom. In the future the same effects may perhaps also be achieved through the use of more novel debt instruments.

But this is not all that can be done in this sphere. One way of stimulating the willingness of banks to take on new risk loans might be to give them complete assurance as to the price stability of their government portfolio. This could be done by creating for them a special instrument redeemable on demand, with a fixed interest rate, or along the lines of Series E or G savings bonds.

Another means of stimulating bank lending might be to limit their income from the public debt, through the use of special low coupon instruments. However, since beyond a certain point banks are under no great pressure to earn more money, the impulse to take on bigger risks in the commercial field because of lesser income from the debt might not be strong. Moreover, if the cut in their debt income prevents them from accumulating surpluses commensurate with their risk assets, their policy may be influenced less in the direction of aggressiveness than of caution.

(2) *Institutional Investors and Wealthy Individuals.* The great extension of the public debt and the decline in interest rates which preceded it has caused this group to become increasingly saturated, from a portfolio management angle, with low-yielding government obligations and at the same time virtually famished for better yielding material. The movement in the direction of higher risks has been only gradual, however. In some instances, such as life insurance companies, a loosening of statutory investment restrictions might help, and might be coördinated, for greater effectiveness, with certain measures of debt

management. By restricting the offerings of obligations attractive to the companies, by limiting their purchases, or by requiring their portfolios to contain a certain proportion of other assets, they could slowly and gently be pushed in the direction of more stimulating uses of their funds.[17]

If a restraining rather than a stimulating influence is the aim of the debt authorities, it would be necessary to induce investors to add further governments to their portfolios and to anchor more securely those already there. An interesting possibility might be the creation of new securities, based on the principle of rising yield underlying the savings bonds, to be made available to large investors. The rising marginal yield would be a strong factor with a carefully calculating investor in making these holdings firm. To be attractive, the instrument would probably have to be made redeemable at sight or on short notice, which might seem to increase the inflationary potential of the debt. However, it may be doubted whether this danger would be much increased by a moderate use of demand obligations beyond that which circumstances and policies would make it without their use. The net effect very probably would be to make holdings firmer and thus to reduce expansionary pressure.

(3) *Nonfinancial Corporations.* Although nonfinancial corporations have shown themselves very amenable to the government's financing needs in wartime, they are likely, in future, to become very much less susceptible to the Treasury's offerings. Security investments are not their business, and when the patriotic appeal evaporates, high tax liabilities shrink, and new uses for funds open up, they are likely to treat their holdings rather summarily. The average corporate management is likely to hold on to its government obligations as long as the money is not needed, and to sell out as soon as it is. Little attention will probably be paid to such niceties as the difference between 7/8 per cent and 1½ per cent, figures which in any case bear no relation to the returns which most corporations must expect on their capital. Hence,

[17] Traditional life insurance opinion probably would oppose the suggestion of risk-taking, on the very reasonable grounds that the chief function of insurance companies as investors is to protect the policyholder's savings. The loss of his savings, however, is only one of the risks which an individual runs under our economic system, and in too zealously guarding him against it his protectors may cause him to fall prey to another one—to lose his job. A single individual can withhold his funds from venturing and thus shift his proportionate share in aggregate business risk, without fear of reducing the total amount of risk investment below what is needed for full employment (including his own). It is very doubtful whether insurance companies, as holders of a large portion of national savings, can do so without damage to their clients' employment prospects. In fairness, it should be added that the aversion of most life insurance companies to any suggestion of common stock investment may in part also be due to the fact that, under present accounting practices, such investments would subject the companies' published balance sheets to the effects of stock market fluctuations.

it will be difficult to exert any significant influence on corporate policy by the ordinary devices of debt management.

In the face of a serious inflationary threat, however, particularly if occasioned by excessive investment activity of corporations, it might be possible to employ the public debt as a countermeasure. Legislation might be passed requiring corporations to hold certain amounts of debt, which would not be eligible as collateral for bank loans, thus immobilizing part of their purchasing power.[18] Admittedly this would be an extreme measure and would present great difficulties of avoiding hardships and unfairness. In any case, it should not be based on existing holdings, to avoid giving the impression that the contractual right of free disposal was being tampered with, and so as not to penalize enterprises which have lent particularly active support to wartime financing. Alternatively, the holding of such bond reserves might be required only of companies engaging in plant expansion.

(4) *Small holders.* Like the corporation, the small debt holder—chiefly owners of E bonds in denominations of $100 and less—will probably prove hard to manage from the debt angle. Usually he has had no previous experience in security ownership, and his actions, for this and other reasons, are unpredictable. His marginal adjustments are likely to be of the rough and ready sort, not easily influenced by small pro's and con's. His holdings, however, are of particular interest because, among all holders of public debt, he is the only one whose marginal adjustments will include adjustments at the consumption margin. His operations, therefore, are likely to have considerable influence on the volume of consumptive outlay.

In attempting to guide the small holder's behavior by means of debt management, particular care must be taken to avoid anything that looks like an infringement of the terms of contract. Within these terms, however, there are quite a number of operations which may prove effective. This belief rests on the circumstance that small holders tend to be influenced particularly by their inertia, and to follow the line of least resistance. If debt management succeeds in getting them to buy bonds, these are apt to be held unless a powerful inducement appears to redeem them. If it succeeds in putting money into their pockets, part at least is apt to be spent for consumption.

If a stimulating effect is desired, the present payroll deduction plan obviously should be abandoned and business enterprises discouraged

[18] A suggestion was made by Mark Mitnitzky in 1941 to establish monetary reserve requirements for corporations. A bond reserve might be more acceptable, because it yields a moderate return. *Cf.* Mark Mitnitzky, "Some Monetary Aspects of Government Borrowing," *Am. Econ. Rev.*, Vol. XXXIII, No. 1 (Mar., 1943), pp. 21-37.

from continuing it individually. While part of the savings now going into E bonds through payroll deduction will merely be shifted to direct purchases of bonds or into additional savings bank deposits, consumption probably will also increase. This step might be particularly effective in breaking the high saving habit which some previous low-savers are believed to have acquired during the war.[19]

A small stimulus might also be achieved by making E bonds eligible as collateral under bank loans. More effective than this would probably be an offer to redeem E bonds at more than their current redemption value, perhaps at a value corresponding to an average 2.9 per cent yield, which the bonds would ordinarily reach only at maturity. This offer, which would be purely optional for the holder, might induce a substantial volume of redemptions, part of which again would probably go into consumption, this being the line of least resistance. Finally, if the availability of E bonds appeared to result in an excessive amount of saving in this form, some slight reduction in total saving might perhaps be brought about by reducing the yield, or by discontinuing the instrument altogether.

If a restraining effect is desired, an attempt should be made to continue the payroll deduction system wherever possible. The situation six months after V-J Day obviously confirmed the Treasury's decision to do so, even though this decision may have originated primarily from somewhat different considerations.

A device which might help to keep E bond money invested would be an offer to pay off the full value of maturing bonds, at the holder's option, with a new bond having equal or similar characteristics. Another possibility would be to offer conversion into annuities.[20] Finally, the piecemeal redemption of the "portfolios" of individual holders might be curbed by an offer to consolidate them into a smaller number of larger instruments, with proper allowance for the age of each of the original bonds.

In conclusion, it may be appropriate to repeat some of the points already stressed earlier. Debt management is not primarily an anticyclical but a long-run instrument. Shifts in the character and distribution of debt cannot and should not be made rapidly for technical reasons as well as because public confidence might be impaired. The broad lines of policy must remain fixed for a number of years. More-

[19] If the government takes steps, implicitly, to discourage individual thrift, it ought to draw the consequences in increasing social security protection.

[20] *Cf.* Ivan Wright, "Managing the Public Debt," *Commercial & Financial Chronicle*, July 5, 1945, p. 85.

over, too much should not immediately be demanded of debt management in the way of positive influence. The preceding discussion has shown that, while a good deal can be accomplished, particularly in combination with fiscal and monetary policy, the possibilities of positively influencing national income through debt management at present still are fairly limited. It seems almost certain, however, that future thought and experience will uncover many new possibilities. Intellectually and practically, we have barely begun to exploit the new instrument.

A CRITIQUE OF FUNCTIONAL FINANCE THROUGH QUASI-FREE BANK CREDIT

By J. Carl Poindexter*

Recent preoccupation with the issues of fiscal policy and the national debt has engendered widespread interest in the collateral problem of possible fiscal techniques for minimizing the debt and tax burdens associated with prevailing financial practices.

As is well known, the process of bank-credit creation has long provided the basis for an irrepressible philosophy of monetary reform which would eliminate interest payments on government debt arising out of government borrowing from commercial banks. The arguments of its adherents run as follows: The coinage and regulation of money is an exclusive and sovereign prerogative of government; government borrowing from commercial banks is not "genuine borrowing"; the government should not be obliged to pay, in perpetuity, hundreds of millions a year to the banks for the deposit currency which the banks simply manufacture and turn over to the government in exchange for its bonds; if a fiscal policy which involves the creation of new money is to be pursued, the government, rather than private issuing agencies (banks), should enjoy the seigniorage on the new money issues. In other words, most exponents of these views relating to present fiscal policy regard government interest payments to the banks as wholly or partly unearned and, at least, a partially unnecessary burden on the government and the taxpayer. They insist, therefore, that if the banks are to be permitted to create the funds which they advance to the government, a new, fiscally less burdensome *method* of compensating them for manufacturing credit for the government should be instituted.

One possible and representative method calls for the issuance to the banks of special, non-marketable, non-interest-bearing securities. This method contemplates that, in return for the monetization of each security of a given denomination, the banks be paid a "reasonable" service charge at the time of issuance, but nothing in the way of interest thereafter. The criterion of repayment of even the principal of such securities would be inflation control, not contractual obligation.

As safeguards against possible inflation, the more subtle proponents of this sort of fiscal innovation propose that the monetary authority be invested with plenary powers over reserve requirements, open market operations and, in addition, the power to impose special taxes to retrieve inflationary excesses in the money supply.

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The purpose of this paper is to analyze some of the issues and expose some of the misconceptions underlying such proposals for facilitating the practical application of the new philosophy of fiscal policy or "functional finance" through the abatement of interest on government debt and deficits.

I. *The Cost of Bank Credit Creation*

In both England and the United States, the enormous growth in the public debt held by the commercial banks has given new impetus to the arguments and proposals for radical modification of present fiscal and financial practice. For example, following the lead of *The Economist* of London, Professor C. R. Whittlesey has presented the following thesis:

> The logic of the change in function (of commercial banks) . . . raises a question as to the basis on which banks are to be compensated for the services which they perform. When their chief function was the allocation of capital to productive uses, it was reasonable to look to interest for the income with which to maintain the banking system. If their chief function is to care for the community's liquid resources and to facilitate clearing operations, should they not look for compensation to those who are benefited by these services?
>
> . . . as custodians of the public debt (which they have acquired through exercising the sovereign function of issuing money) it is by no means obvious that they are performing a service that warrants the compensation they are receiving for it. . . . What we now have is an arrangement whereby a large part of the services performed for depositors is transferred to the Treasury. It is not clear that this has any permanent economic justification.[1]

The indicated reform and its alleged advantages, as seen by *The Economist,* are summarized in the following quotation:

> Over a period of years, the aim should be to shift the greater part of the burden of meeting the operating costs of banks—suitably abridged by all reasonable economies—on to depositors, at least, to the extent of charging, for the services performed, what they are worth to the recipient. If, after this has been done, there is any part of the total costs (including reasonable profits) which is not covered by (a) interests charges on advances, and (b) interest earned on securities purchased in the open market, then—but only then—a charge should be made for the remainder of the public debt held by the banks. In other words, the cost to the Exchequer of this portion of the national debt would be the net cost of operating the banking system, after all of those for whom it performs services have paid for them. This net cost might well turn out to be nil, or even negative.[2]

[1] C. R. Whittlesey, "Problems of Our Domestic Money and Banking System," *Am. Econ. Rev.*, Vol. XXXIV, No. 1 (Mar., 1944), suppl., p. 252.

[2] *The Economist,* September 4, 1943, p. 312.

The first objection to the reasoning of the above-quoted writers is that borrowers from banks have always provided the revenue which defrayed the cost of furnishing depositors with free or partly free custodial and checking facilities, and interest on deposits. This arrangement is an ancient and spontaneous outgrowth of competitive forces. Hence, there is no *prima facie* reason for believing that depositors are any less deserving of free banking services at the hands of a banking industry whose chief customer is the government than they were when banks derived nearly all of their revenue from private borrowers.

The proposals under consideration appear to have their basis in a questionable conception of the nature of bank lending—namely, that the setting up of bank deposit credit to the government is a mere "service" operation for which a payment should be made which covers only the direct transaction and risk costs incurred by the banks in exchanging their credit for that of the government.[3] The inference that interest payments to the banks involves an unnecessary element of "subsidy" arises primarily from neglect of the fact that such payments are, for the most part, based not on the direct operational or risk cost to the banks of setting up and allocating deposit credit to the government, but rather on the cumulative real cost of vesting in the government command over present as against future goods. In other words, the costs of bank credit creation are essentially the same as those borne by the individual saver-lender.

The very circumstances under which banks create deposit currency and make it available to the government provide the clue to the reason why interest received by the banks is a payment for services whose costs are resolvable into the same real costs for which the individual saver-lender is paid. When the government (or any other customer) borrows newly created money from the banking system, it is the public, in actuality, which, through the agency of the banking system, does the real lending. The government (or other borrowers) can obtain bank-created money only when banks can create it; they can create it only to the extent that recipients of checks (drawn against lending banks) refrain from presenting them for cash, *i.e.*, lend back to the banks that which the banks lend to the government (or other borrowers). Recipi-

[3] Professor Whittlesey's doubts as to whether there is economic justification for continuing the present policy of paying interest on government debt acquired by the banks seem to be predicated on this theory. He says: "As holders of government obligations, the credit operations of banks are only indirectly related to the productive process. And in acquiring obligations of the government in exchange for their own, banks can hardly be said to provide credit of a higher quality than that which they receive." Hence he concludes that "the economic functions that were generally regarded as of primary importance in entitling them to a share in the income of society have for the most part disappeared." Whittlesey, *Am. Econ. Rev.*, Vol. XXXIV, No. 1, suppl., p. 251.

ents of checks will refrain from presenting them for cash, *i.e.*, lend the amounts involved back to the banks, only when there is an advantage in doing so; there is such an advantage when price free, or partly free, custodial and checking facilities are provided by banks to depositors, and when the banks offer interest on time and savings deposits. (Custodial and checking facilities constitute a species of interest paid by the government, or other borrowers, through the medium of the banking system, to depositors whose savings, in turn, are made available, through the medium of the banking system, to the government, or other borrowers.) Therefore, the price of bank credit, regardless of who pays it, must cover the cost to the banking system of lending and *continuously servicing* (*via* interest payments or the real equivalent) the pool of time and demand deposits the growth of which is a simultaneous and integral part of the process of credit creation. Such differences as may exist between the interest income of the banks and the value amounts of the services and interest paid to depositors are justified by the fact that banks relieve depositors of the trouble, expense and risks involved in lending and investing their funds.[4]

It is highly doubtful that the portion of bank operating expenses now, in effect, borne by the government could be shifted to depositors (via service charges) without destroying the banking habits of the public. To argue that depositors would absorb this burden is tantamount to arguing that there has existed a very rich potential source of revenue which banks have heretofore simply neglected to exploit. There is scant reason for accepting such a view. On the contrary, resistance to the present modest service charges on depositors' accounts suggests that

[4] Whether net interest is defined as a phenomenon of liquidity preference or time preference, there is an underlying real (subjective) cost entailed when individuals alienate their claims to goods. The aggregate amount of this cost varies directly with the length of time for which the claims are alienated, and the lender demands a reward proportional to the real cost incurred during the period of the transaction. This fact is not altered when the banks serve as intermediaries which provide the depositors (the real lenders) with the form of money in which (because of its superior convenience) they wish to embody their claims against the community.

Of course, so long as paper money remains a medium whose injections continue to satisfy liquidity preference, interest is not a socially inescapable cost of government deficit spending. But from the point of view of private economy, foregoing liquidity entails a real and inescapable cost for which an interest premium must be paid if "money" is to be obtained from individuals and private institutions on any voluntary contractual basis. Hence, interest-free bank credit would require a considerable measure of coercion if not outright nationalization of banking.

The question of socialization of banking and credit lies beyond the direct interest of this paper, but, as may be inferred from the arguments herein presented, it is doubtful that resort to socialization of banking, in order to avoid paying the liquidity premiums demanded by hoarders of existing money reserves, would, in itself, yield any real fiscal advantage to the government.

revenue possibilities in this direction are quite limited.[5] If we assume that half of the total earnings of banks, from loans and investments, is derived from interest premiums on government securities—probably not materially at variance with the existing state of affairs—it is difficult to believe that banks could boost service charges to sufficiently high levels as to produce aggregate earnings in amounts that would substantially offset the loss of interest on government securities. The required service charge increase, eight- or tenfold, would surely be out of the question. Hence, if service charges—accompanied perhaps by the total elimination of interest on time and savings deposits—were relied upon to compensate banks for the loss of interest payments now received from the government, it is all but inconceivable that depositors would continue to coöperate with the banks in the manner and to the extent required to preserve the present system of bank credit creation.[6]

Failing this coöperation, it would, of course, be impossible to shift "the greater part of the burden of meeting the operating costs of banks . . . on to the depositors." Hence, an attempt to shift the burden in question from the government to the banks would probably result in an enforced reversion to the economically inferior and socially more costly monetary practices of the past, or possibly the development of unencumbered substitute facilities. In either case, the probable monetary disorganization and its attendant social costs would very likely outweigh the fiscal advantage which is sought. If this be a correct view, there seems to be little theoretical justification for doubting that banks "as custodians of the public debt . . . *are* performing a service that warrants the compensation they are receiving for it." (Italics added.)

It is difficult to follow the logic of the expressed and implied views that banks exact undue rewards from the government when the prices and yields of their government securities are determined, directly or indirectly, by market conditions.[7] If it be true that "the economic functions of banks that were generally regarded as of primary importance in entitling them to a share in the income of society have for

[5] It will be recalled that service charges have accounted, in recent years, for a maximum of 4 to 5 per cent of total bank earnings. See *Federal Reserve Bulletin,* May, 1940, p. 398; June, 1943, p. 500; May, 1944, p. 448; and *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1943,* p. 98. Even more striking is the fact that, for the year 1943, bank income from service charges amounted to only 12 cents per $100 of demand deposits. See the above-cited FDIC *Report,* p. 99.

[6] Incidentally, it is an interesting question how much of the approximately 26 billion dollars of currency now in circulation is being hold out of banks because of the existing restrictions on bank competition for deposits (demand and time) and because of the unwillingness of many people to pay the service charges exacted by most banks nowadays.

[7] Let it be recalled that the government can fix either the price of its securities or the rate of interest which they bear; but, under any given conditions, it cannot do both.

the most part disappeared," it is pertinent to ask why competition has failed, or cannot be relied upon, to bring about the appropriate banking economies and changes in the amounts and sources of the needed revenue to maintain the banking system. Only on the assumption that imperfect competition prevents the appropriate cost-price relationships can it be argued that radical modification of existing sources and amounts of bank income is needed to enable the government to escape an unduly burdensome interest bill.

It must be conceded that local circumstances do, in accordance with the theory of monopolistic competition, give rise to artificially high and inflexible interest rates. In fact, it is notorious that interest rates in the interior and rural areas of the country are, in large measure, conventional and non-competitive. But the same thing cannot be said of the large urban money markets. Especially, in regard to the market in government bonds, it cannot be denied that, on the demand (investors') side, the competition—which is nation-wide and bank industry-wide—is about as unrestricted as that to be found in any important industry in the country. Country banks which wish to invest in securities enjoying a nation-wide market are compelled to meet the terms set by competitive factors in the money centers in which nation-wide money supply and demand forces are focused. Moreover, in the nation-wide securities market, commercial banks are exposed to competition with every kind and class of non-bank investor. If there is imperfect competition in the market for government securities, it exists on the side of and redounds to the advantage of the government which, as the only source of supply of government bonds, is of course in a monopoly position.[8] Hence theoretical considerations warrant the conclusion that any undue social cost of such imperfectly competitive pricing as occurs in the banking industry rests on its private customers rather than on the government which enjoys the economic advantage of virtually unlimited competition in the sale of its securities.[9]

[8] By virtue of this fact, national monetary policy is capable of producing more or less arbitrary alterations of nominal interest rates and, hence, security prices; but such alterations are brought about not by price fixing in the usual sense but by administrative changes in certain economically significant legal and economic data which bankers do not control and to which they react competitively. In other words, open market operations, regulation of reserve requirements and rediscount policy serve not to make the competition among banks less perfect but rather to alter the operational conditions under which they compete for investment business.

[9] For reasons largely ulterior to fiscal considerations, the government, during the past decade, has offered its securities to the banks on terms which, under the circumstances, have been slightly more favorable to the banks than the market probably required. At least, this is a legitimate inference for one to draw from the fact that banks (even allowing for padding) have regularly readily oversubscribed Treasury offerings, in consequence of which the Treasury has informally rationed the distribution of its offerings among the banks. However, if such a policy results in any appreciable subsidization—

Moreover, there is no discernible reason for doubting that competition among banks can be relied upon to force a price on government credit which covers no more than a minimum proportion of the joint costs of operating the banking system. Because the costs of providing the government with credit are admittedly less than those incurred in providing credit to private customers, one would expect a differential in the prices of the two kinds of credit. That happens to be the case, as is revealed by the striking difference between interest rates on commercial loans and the yields on government securities. The differential is sufficient to suggest the probability that the "shift" in the primary function of the banking industry has resulted in competitive reductions in interest rates on governments to such an extent as to yield the banking industry little more than the direct costs involved in servicing the resulting new deposits, leaving most joint costs to be covered by income from private loans and investments. Certainly, there is scant evidence that competition has failed, during the past decade, to prevent bank exploitation of the United States Treasury.[10] In so far as cost is an acceptable criterion for determining the compensation which banks deserve for creating and lending credit to the government, can any better dispensation be devised than that provided by the market?

This suggests the interesting problem of how, if *interest* payments were abolished on bank-financed deficits, one would go about determin-

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which is doubtful—the government could easily revise the situation henceforth by selling its refunding and net new offerings to the highest bidders. To the extent that this has not been done, the explanation is doubtless to be found in the probability that such a policy would be attended by certain fiscal and non-fiscal disadvantages which outweigh the possible fiscal advantages.

[10] As is well known, the yields on bank-held government securities have ranged from 0 per cent to a maximum of a little over 2 per cent per annum during the past decade. Bank profits likewise have, until recently, been unprecedentedly low. For the years from 1934 to 1941, inclusive, the net profits per $100 of total capital accounts of FDIC affiliated banks were, respectively,—$5.49, $3.35, $8.35, $5.97, $4.68, $5.99, $6.08, and $6.72. (See *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December, 31, 1941*, p. 57.) Since the outbreak of the war, the great increase in the volume of earning assets, due to the rapid expansion of business activity and—more importantly—heavy government financing via the banking system, has naturally brought about enhancement of bank earning. For the years 1942 and 1943, respectively, net current operating earnings of FDIC affiliated banks were (before taxes and charge-offs) $9.45 and $10.80. Net profits after charge-offs and taxes were, for the same years, $6.26 and $8.58, respectively. (See *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1943*, p. 37.)

While, on the face of things, the rate of return realized during the last year or two may appear to be more than adequate, in actuality it probably is not in view of the fact that it is computed on the basis of bank capital accounts whose total amounts, relative to either assets or liabilities, is subnormal and, from the point of view of responsible private banking, of questionable adequacy. In any case, there is no available evidence that present bank profit rates, before or after taxes, etc., are in excess of those being realized by industry generally.

ing the precise form and rate of compensation which it would be proper to pay the banks for providing deposit currency and other banking services to the government. There is no apparent reason to believe that a service-charge method of compensation would result in appreciable savings in government debt costs if competition were permitted to determine the amounts to be paid to the banks. On the other hand, if competition were not allowed to fix the price of bank services to the government, there would surely arise an economically delicate and politically sinister task of arbitrarily determining to what extent an enforced reorganization of the banking system is to be brought about in consequence of the withdrawal of government financial support. Perhaps it can justly be said that a part of the existing banking system is "redundant"—in some ideal economic sense—and, hence, that it might well be reorganized on a less decentralized and more economic basis. However, in the nature of the problem, generally acceptable criteria, not to mention practical means, for imposing the appropriate reorganization are lacking. Indeed, it is quite likely that the proposed method of allowing the banks a "reasonable" service charge (in lieu of interest) for their services to the government would create a situation in which the government found it politically impossible to enforce any desirable economies on the business through the withdrawal of its support. Furthermore, since credit creation is a process which occurs through the (uneven) actions and reactions of all of the banks comprising the system, would not different banks be affected capriciously and largely without reference to their operating costs or economic value to the community? So long as the existing money market remains unimpaired, it would seem that it can better be left to competition to effect the desirable economies and appropriate cost allocations in the banking business.

II. *The Preëmptive and Destructive Effect of Free Finance on the Banking System*

A policy of offsetting hoarding by injecting quantities of interest-free money would not only deprive banks of needed income during depression but also prevent them from enjoying their normal share of prosperity during a subsequent business upturn—in so far as drastic restrictions on private bank lending were relied upon to prevent inflation. The problem can perhaps be made more explicit by the following formulation.

If, for the purposes of analysis, one makes the legitimate assumption that, during an initial prosperity period, the volume of bank credit reached its maximum non-inflationary or equilibrium limit at (say) 50 billion dollars, and that, because of competition, net earnings of banks

were then comparable with those in other lines of business, *interest-free* government borrowing of any portion of this (presumably deflated and unused) credit potential, during a subsequent period of depression, would *pro tanto* recreate the money supply which, *ceteris paribus*, it would be possible or permissible for banks to lend during a subsequent prosperity period. The issuance of interest-free money during depression would require that the government retrieve this portion of the money supply *pari passu* with the expansion of private bank credit as full employment is approached—unless either the volume of private bank credit (and, hence, bank earnings) is to be restricted to the depression level or inflation is to be invited. Since virtually everybody objects to inflation, the choice would be between a fiscal policy calculated to extinguish the interest-free money injected previously or a policy which (perhaps by imposing drastic reserve requirements) is calculated to block the creation of the supplemental supply of interest-bearing private bank credit needed to sustain the banking system.[11] Obviously, in the former case, the expected tax saving would largely be set at naught and, in the second case, the possible tax saving could scarcely be considered a net social gain.

Apart from the damaging consequences of unusually drastic reserve requirements, it is more and more being recognized that the lending power of banks is impaired by a deficit spending policy which has the simultaneous effect of increasing deposits and, thereby, decreasing bank capital ratios. This has been one of the unfavorable results of the kind of deficit finance policy pursued during recent years. Because of low earnings, banks have, until recently, found it difficult to attract additional capital or to make adequate provision out of earnings for the maintenance of their capital ratios.[12] Obviously, this problem would be

[11] In principle, the necessity of choosing between these two alternatives is recognized by proponents of the 100 per cent money reform, although many of them think that as much compensatory income as banks deserve could be obtained from service charges.

As it is frequently formulated, the 100 per cent reserve plan would require the banks to surrender the portion of the federal debt which they hold in exchange for an equivalent amount of printing-press money and, to preclude possible inflationary credit expansion, on the basis of the new currency, reserve requirements would be raised (ultimately) to 100 per cent. Thus the plan would have the effect of terminating the government's obligation to pay further interest on and the principal of a large portion of its existing debt.

As is to be inferred from the preceding analysis, the 100 per cent money plan would probably prove to be subtly confiscatory of the interests of bankers and, perhaps in part, the vested interests of depositors as well. In any case, it should be noted that the fiscal gain would be a non-recurring one, *i.e.*, the fiscal windfall resulting from the terms of the transition to the 100 per cent system could be realized only once. Other things remaining the same, further retirement of government debt via interest-free fiat issues would invite inflation.

[12] Because of the fact that the decline in capital ratios in recent years has been accompanied by a great increase in bank holdings of government securities on which banks may borrow at the Federal Reserve, the view has gained currency in some quarters that

egregiously aggravated by a policy of interest-free deficit financing. To this extent also, the ability and willingness of banks to meet the legitimate capital requirements of private business during a business upswing might be seriously weakened. For the foregoing reasons, it seems quite certain that a policy of offsetting hoarding by interest-free multiplication of the money supply would have severely adverse or destructive effects on the earning power, social efficiency, profits and basic security of the banking system, not merely during the depression but also during the subsequent period of induced prosperity.

III. *The Politics of Quasi-Free Functional Finance*

An essential principle of "functional finance" is that "Taxation should . . . be imposed only when it is desirable that the taxpayers

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there is no longer a need for the maintenance of the same capital ratios which were once deemed necessary. This seems to the writer to be an untenable view. First of all, up until the year 1943, total bank capital accounts declined relative to total assets *exclusive of United States obligations.* (See annual reports of the FDIC.) In respect to bank assets other than governments, a sound banking system still requires that some minimum capital ratio be maintained. The writer would go further and say that, even in respect to government obligations which, of course, involve a minimum of risk of default, there is still reason for the maintenance of capital ratios at something like the 10 per cent minimum level heretofore insisted upon by the banking authorities. With bank investment accounts heavily loaded with government obligations which yield considerably less on average than 1.5 per cent per annum, only a small break in bond prices is required to wipe out the capital of many banks. Of course, as long as the government adheres to the policy of permitting banks to carry government obligations at cost or par, a fall in bond prices would not constitute a threat to bank solvency except in the unusual case of banks which might be forced to sell bonds in a depressed market or forced to borrow extensively from the Reserve banks in the face of persistently unfavorable operating conditions.

It should be emphasized, however, that the valuation advantage now enjoyed by banks is founded upon nothing more substantial than the present (unprecedented) *policy* and hence is subject to change upon the discretion of those charged with responsibility for banking policy. Moreover, it is difficult to see how continuation of this policy can be reconciled with the more important desideratum of maintaining a responsible private banking system capable of bearing the risks of private capital financing. Finally, it should be remembered that the vaunted liquidity of government obligations rests not so much on intrinsic qualities as on the prevailing monetary policies. The conditions which are likely to cause a fall in bond prices are also likely to necessitate a reversal of the government's easy money policy if inflation is to be avoided. In any event, should bond prices fall, the alternatives would appear to be the exposure of an inherently less secure banking system to exceptional hazards or the continued adherence to a monetary policy incompatible with the exigencies of inflation control. Hence, the fact that the Reserve banks stand ready at present to make advances at par on depreciated government securities cannot be accepted as justification for indifference to further deterioration in bank capital ratios.

[13] See Abba P. Lerner, "Functional Finances and the Federal Debt," *Social Research* (February, 1943). Also see "The Economics of Control," (New York, Macmillan, 1944), chap. 24, by the same author.

Interestingly enough, it may be said that those who advocate the 100 per cent money system, together with interest-free issues for the purpose of and to the extent necessary

shall have less money to spend, for example, when they would otherwise spend enough to bring about inflation."[13] Since it is assumed that inflation would come only after "full employment," the obligation to pay interest need be no more than a mere nominal burden until full employment is reached. As long as unemployment persists, funds to finance compensatory spending *and* pay interest on the accumulating debt might be raised by borrowing.[14] But, if it is assumed that government spending will sooner or later induce dishoarding, together with an accompanying threat of inflation, the logic of functional finance requires that the government raise not merely the amount of revenue which balances current expenditures, but also enough additional revenue to recapture (and thus permit withdrawal of) the redundant portion of the money supply.[15]

The foregoing considerations suggest that grave political dangers would attend a policy of quasi-free functional finance. Recent studies have served to establish the fact that American political and fiscal institutions are ill-adapted to the task of manipulating expenditures and taxes in the manner and on the scale contemplated by the theory of functional finance.[16] The administrative difficulties inherent in a compensatory budget system would likely be multiplied manyfold as a result of public resistance to taxes were it understood that the government does not have to pay interest on, or (perchance) even the principal

for maintaining some price level, are also, in principle, advocating functional finance. For striking confirmation of this, compare Professor Henry Simons's recent article, "On Debt Policy" (*Jour. Pol. Econ.*, Vol. LII, No. 4 [Dec., 1944], pp. 356-61), and Professor A. P. Lerner's works cited above. The essential difference (apart from the 100 per cent money feature) relates to the criterion by which the amount of new money to be introduced (or withdrawn) is to be determined.

[14] If permanent stagnation is assumed, it is theoretically possible that the government could indefinitely finance its deficits, in whole or part, by borrowing on whatever terms proved necessary—and without entailing any real burdens. This policy would likely be less disruptive of justly vested interests, the state of business confidence and the inducement to invest than would a policy of interest-free spending of new money. Therefore, under the assumed conditions of secular stagnation, little need for or advantage could be expected from a policy of free functional finance.

[15] Contrary to generally held opinion, repayment of the national debt is not necessarily deflationary. Unless the government raises more money through taxation than it disburses during a given period, and unless it hoards or extinguishes the excess, the retirement of public debt through taxation merely transfers existing purchasing power, leaving its total amount unaltered—assuming, as would normally be the case in a full employment economy, that the demonetization, *via* repayment, of the bank-held portions of the debt is accompanied by the simultaneous monetization of corresponding amounts of private debt. Hence, any circumstances which require that the government retrieve excess purchasing through taxation require levies exceeding those needed merely to transfer currently needed resources to the government.

[16] See, *e.g.*, Chas. C. Abbott, "Administration of Fiscal Policy," *Harvard Bus. Rev.* (Autumn, 1944).

of, its debts. In the face of an inflation threat, or the need to pave the way for the banks to realize a due measure of income from the monetization of private credit, public officials might stoutly insist that higher taxes are necessary to extinguish the monetized non-interest-bearing national debt; but, in the light of experience, one can scarcely be optimistic about the willingness of the public to accede to any substantial increases in taxes merely for the purpose of enabling the government to retire part of the money supply from circulation.

Even if the principle of taxation for deflation were to command general support, it would by no means solve the inevitable problem of whose money is to be taken (in taxes) for retirement from circulation. Whenever tax bills are under consideration, it is the tendency of every group to seek tax immunity for itself and the imposition of the required taxes on other groups. Can it be doubted that powerful impetus would be given to this tendency, with disastrous consequences, if it were understood that the taxes to be imposed were needed not to service the debt but purely for the purpose of combatting what the public would surely consider an abstract, hypothetical danger—namely, a possible inflation or the possible inability of the banks to survive under the existing restrictive conditions? The entire probability is that opposition to taxes would steadily mount simultaneously with demands for progressively larger subsidies, bonuses, pensions, doles, public works and other expenditures. Existing restraints on fiscal irresponsibility would dissolve and very likely bring on economic chaos.

It is no sufficient answer that these dire consequences might be escaped by giving the monetary authority plenary power to fix, at certain intervals, the maximum amount of permissible government expenditures and impose whatever taxes might be deemed necessary to prevent inflation and preserve a proper measure of private business opportunities for the banks. If the monetary authority were endowed with independent, "non-political" status, it is doubtful that it could long retain it. The public would not supinely acquiesce in the (often necessarily) disagreeable decisions and policies of the monetary authority. Through its national legislative representatives, the public would surely demand that the authority be shorn of its "bureaucratic" power to decide such vital issues as who is going to pay how much in taxes and how much is to be spent during any given fiscal period. The fact is that social restraints on selfish aggrandizement are necessary if the sense of individual responsibility is not to be destroyed or fatally corroded. In the field of fiscal policy, the necessity of "raising" money by means of taxation or borrowing, on pain of paying interest, imposes a salutary and necessary restraint which would be lost under the proposed system of financing.

IV. *Conclusion*

The analysis of this paper leads to the conclusion that there is little merit in the arguments for the abrogation of, and the substitution of service payments for, the present system of interest payments on bank-financed government deficits and debts. Specifically, it has been shown that: (1) the circumstances of bank-credit creation constitute an effective refutation of the argument that banks unwarrantedly encroach on the government's prerogative of creating and regulating the currency; (2) the present system of government borrowing from the banks does not entail excessive or undue cost burdens for the government or the taxpayer; (3) the substitution of a service-charge basis of compensating banks for their "services" of creating and handling bank credit in behalf of the government would not yield any net social advantage; and (4) the financing method in question would be subversive of economic discipline and fiscal responsibility. Under the most favorable circumstances, the political dangers are far too serious to be compensated by any prospective saving in tax burdens. In fine, the most practical and equitable method of financing "functional" (or other) deficits and debts is the orthodox one of borrowing at the rate of interest which the market may require.

THE RAILWAY LABOR ACT AND RAILWAY LABOR DISPUTES IN WARTIME

By HERBERT R. NORTHRUP*

I. *Introduction*

That President Truman should use railway labor legislation as a model in asking a law to curb strikes should not be surprising. For more than fifty years labor relations in the railway industry have been subject to federal regulation.[1] The 1934 amendments to the Railway Labor act of 1926[2] represent the climax of the evolution of public policy toward collective bargaining on the railroads. The results of this federal regulation have met with the highest commendation. After only one year of experience as the chief administrative agency of the amended act, the National Mediation Board reported that the act expressed "a model labor policy based on equal rights and equitable legislation."[3] Testifying before a Congressional committee, former Secretary of Labor, Frances Perkins, declared that "the Railway Labor act embodies the fullest and most complete development of mediation, conciliation, voluntary agreement and arbitration that is to be found in any law governing labor relations" and that the "administration of the Railway Labor act . . . is an outstanding example of effective administration of a labor law."[4] Many students of labor relations have confirmed these official views.[5]

An examination of the reasoning behind this viewpoint, however, reveals no careful analysis of the provisions of the act or of the decisions and awards of the National Mediation Board and the National Railroad Adjustment Board, the agencies which administer it. The sole criterion used by proponents of the act is the strike record in the industry. They

* The author, a visiting member of the economics departments of Columbia and New York Universities, gratefully acknowledges several penetrating suggestions by Dr. B. M. Stewart and Professor Lois MacDonald.

[1] For early railway legislation, see C. O. Fisher, "Use of Federal Power in Settlement of Railway Labor Disputes," Bull. No. 303, U. S. Bureau of Labor Statistics, 1922; and H. D. Wolf, *The Railroad Labor Board* (Chicago, Univ. of Chicago Press, 1927).

[2] 48 U. S. Stat. 926 (1934).

[3] *First Annual Report of the National Mediation Board,* 1935, p. 1.

[4] Hearings before the Committee on Commerce, U. S. Senate, 75th Cong., 3rd sess., on S. 3078. Pt. 10 (Washington, Supt. Docs.), pp. 968-99.

[5] *E.g.,* H. D. Wolf, "Railroads," in *How Collective Bargaining Works* (New York, Twentieth Century Fund, 1942); H. S. Kaltenborn, *Governmental Adjustment of Labor Disputes* (Chicago, Foundation Press, 1943), chap. III.

have merely observed that industrial peace prevails on the rails and have attributed this condition to the Railway Labor act and its administration.

On the other hand, there have been several studies[6] and court decisions[7] adversely critical of the procedure and awards of the National Railroad Adjustment Board, which has jurisdiction over disputes arising out of the interpretation of collective agreements that have not been resolved by union-carrier grievance machinery. In other studies,[8] the present writer has raised questions concerning the manner in which the National Mediation Board has defined the bargaining unit; and concerning the Mediation Board's apparent disregard for the rights of Negroes who have been deprived of long-held jobs by agreements, effected with the aid of the Mediation Board, between carriers and unions which admit only white workers.

The Scope of this Article

Critics of the Railway Labor act, however, have thus far confined themselves to particular phases of the administrative machinery of the act and, like the proponents of the act, have made no investigation of results of the operation of its disputes machinery. This article surveys the more important railway dispute cases which have occurred since 1941 and draws certain conclusions from the manner in which they were handled. Since the period 1941-45 was an emergency period and includes only a portion of the history of the Railway Labor act, the conclusions may not apply to operations under the act in normal times. On the other hand, the extent to which the Railway Labor act met the test of the emergency period is of real significance if its procedures are to

[6] Administrative Procedure In Government Agencies, S. Doc. 10, Pt. 4, 77th Cong., 1st sess., 1941; L. K. Garrison, "The National Railroad Adjustment Board: An Unique Administrative Agency," *Yale Law Jour.*, Vol. XLVI (1937), pp. 567-98; W. H. Spencer, *The National Railroad Adjustment Board* (Chicago, Univ. of Chicago Stud. in Bus. Admin., Vol. VIII, no. 3, 1938); note, "Judicial Review of Awards by the National Railroad Adjustment Board," *Yale Law Jour.* Vol. LI (1942), pp. 666-73; and S. H. Slichter, *Union Policies and Industrial Management* (Washington, Brookings Inst., 1941), pp. 195-96.

[7] *E.g.*, *Nord v. Griffen*, 86 F. (2d) 481; cert. den., 300 U.S. 673 (1937), in which the appellate court said: "The trial below and this appeal do not involve the merits of the controversy. They involve solely the question of whether the appellee is to be bound by an order of an administrative board in a proceeding to which he was not a party, entered at a hearing of which he had no notice. The mere statement of the proposition is conclusive of its soundness. The rights of the plaintiff are protected by the Fifth Amendment." For a list of supporting cases, see *National Collective Bargaining Policy* (New York, The Industrial Relations Counselors, 1945), p. 86, note 41.

[8] Herbert R. Northrup, "The Appropriate Bargaining Unit Question Under the Railway Labor Act," *Quar. Jour. Econ.* Vol. LX, No. 2 (Feb., 1946), pp. 250-69; and *Organized Labor and the Negro* (New York, Harper, 1944), pp. 58-62.

be used as a model for labor legislation of wider application; for it is precisely in times of emergencies and stress in labor relations that effective labor adjustment machinery is most essential.

II. *Railway Labor Disputes, 1941-45*

The 1941 Wage Movement

In the early summer of 1941, the standard railway unions served demands on the nation's railroads for substantial wage increases. The five operating unions requested a 30 cent per hour increase; the fourteen nonoperating unions, a 30 per cent increase, paid vacations, and an increase of the minimum rates for unskilled workers from 36 cents to 70 cents, and for skilled workers from 85 cents to $1.15. After negotiations broke down, the National Mediation Board proffered its services, and when mediation failed, the Board suggested arbitration. The carriers agreed, but the unions rejected this procedure. After a vote taken by the unions showed more than 90 per cent in favor of strike action, the Mediation Board notified the President that an emergency existed and he immediately appointed a five-man emergency board, headed by Dean (now Senator) Wayne L. Morse, to hear the dispute and report to him. In accordance with the act's procedure, a possible strike was therefore delayed until thirty days after the emergency board reported.

The Morse report, issued on November 5, 1941, recommended increases of 7.5 per cent for operating employees, of 9 cents for the nonoperating groups, and of 7½ cents for Railway Express Agency employees. In addition, the nonoperating group was awarded one week's vacation with pay and certain other adjustments were recommended for the short-line roads. All adjustments were to be on a temporary basis, to be effective September 1, 1941, and to terminate December 31, 1942, unless extended by agreement of the parties.

The carriers accepted the recommendations, but the unions found them completely unsatisfactory. Their leaders hurried to Washington to see the late President Roosevelt and other officials in the Administration and Congress in order to urge a more favorable settlement. The five operating unions set December 5-7 for a nation-wide strike; the nonoperating group set no strike date, but announced that it would refuse the recommendation none the less.

Attempting to avoid a stoppage, the President conferred with the parties on November 18 and 19. In a move which was totally without precedent under the Railway Labor act, the President reconvened the emergency board and in effect suggested to it that a different set of recommendations should be submitted. This time, the emergency board

acted as a mediation panel, instead of a fact-finding body, and, with the alleged aid of pressure from the President, secured an agreement satisfactory to the unions. It provided for increased vacations, a 10.5 per cent increase to operating employees, and a 10 cent per hour increase to the nonoperating groups, including Railway Express personnel. Moreover, these adjustments were made permanent. The carriers were mollified with promises of increases in passenger and freight rates, which the Interstate Commerce Commission soon put into effect.[9]

Thus President Roosevelt was able to avert a nation-wide rail strike scheduled for Pearl Harbor Day. By so doing, however, he assisted the rail unions to reject a recommendation arrived at by means of the disputes machinery which had been established largely at their behest.

The Toledo, Peoria and Western Strike

The first major strike which faced the National War Labor Board involved railway employees. Train and engine service workers on the Toledo, Peoria and Western Railroad were called into strike on December 28, 1941, by the Brotherhood of Railroad Trainmen and the Brotherhood of Locomotive Firemen and Enginemen. The strike was the culmination of a long-standing dispute involving principally the question of whether working rules in effect on other roads should be introduced on the Toledo, Peoria and Western. The Mediation Board was unable to resolve the dispute either by mediation or by voluntary arbitration, although the brotherhoods, which had originally refused the latter procedure, consented to it after Pearl Harbor. The carrier demanded the appointment of an emergency board, but refused to arbitrate, and not even the President could induce it to agree otherwise. Faced with such defiance, the President on March 21, 1942, ordered the Toledo, Peoria and Western taken over by the government and operated by the Office of Defense Transportation. The brotherhoods called off the strike, the strikers were reinstated in their jobs, and an arbitrator was appointed by the War Labor Board. When the president of the carrier refused to appear, the arbitration hearing was conducted in his absence. On September 23, 1942, the War Labor Board issued a directive order putting the arbitrator's award into effect with certain modifications, and providing further that the Toledo, Peoria and Western should be continued under government operation until such time as the carrier executed agreements with the brotherhoods containing the terms of its directive order.[10]

It should be noted that in the Toledo, Peoria and Western case the

[9] The history of this case is found at 9 LRR 54, 252, 273, 296, 363, and 366.

[10] See 10 LRR 41, 73, 113, 145, 631; 11 LRR 216, 337.

provisions of the Railway Labor act were not followed to conclusion. After the Mediation Board failed to obtain an agreement to arbitrate, no emergency board was appointed. The Office of Defense Transportation proposed arbitration, but to no avail. The United States Conciliation Service then intervened. When it failed to achieve results, the Secretary of Labor certified the case to the War Labor Board, which *directed* arbitration under Section 8 of the Railway Labor act, although that act provides only for voluntary arbitration,[11] and although Executive Order 9017 which created the War Labor Board provided (Par. 7) "Nothing herein shall be construed as superseding or in conflict with the provisions of the Railway Labor Act. . . ."[12]

The National Railway Labor Panel

On May 21, 1942, President Roosevelt issued Executive Order 9712, creating supplementary machinery to handle railway labor disputes during the emergency.[13] The order established a nine-man panel from which emergency boards of three persons could be set up whenever a union—not a carrier—declared, or the chairman of the panel found, that war production was threatened by an emergency railway labor situation.

Executive Order 9712 neither amended nor supplanted the Railway Labor act. It reaffirmed the purposes and procedures of the act, but supplemented it "in order to adjust the policies and procedures under said Act to the requirements of the war emergency." It proposed to accomplish this in two ways. First, it provided for the appointment of emergency boards without such appointment being conditioned on the holding of affirmative strike votes, the setting of strike votes, or the certification to the President by the Mediation Board that substantial interference with commerce was threatened; and, second, it gave exclusive jurisdiction of railway labor disputes to railway labor agencies and thus sought to avoid jurisdictional disputes between them and the War Labor Board, such as occurred in the Toledo, Peoria and Western case.

[11] That arbitration under the Railway Labor act may not be perfectly voluntary even in peacetime is indicated by the United States Supreme Court in the case *Brotherhood of Railroad Trainmen* v. *Toledo, Peoria and Western Railroad Company*, 321 U.S. 50 (1943), in which an injunction granted to the railroad to prohibit certain actions of the striking unions which had led to violence, was dissolved because the railroad did not exhaust the peaceful settlement procedures—*i.e.*, arbitration—which the Norris-LaGuardia act, according to the court, requires for the granting of an injunction.

[12] On October 1, 1945, following the end of hostilities, the T.P. & W. was returned to private ownership. No agreement was reached between the carrier and the unions beforehand, however, with the result that a strike was called which has since continued in effect, and which has resulted in death and bloodshed.

[13] The text of the order is found at 10 LRR 443.

In establishing the National Railway Labor Panel, the President followed the traditional American practice of treating railway labor differently from other industrial groups. In this instance, not only was a special agency created, but settlement was provided for purely on a voluntary basis (except in so far as public opinion might be compelling). Emergency boards under Executive Order 9712, as those under Section 10 of the Railway Labor act, merely made reports and recommendations. They received no authorization, such as was conferred on the War Labor Board, to settle disputes by "directive orders." Hence they could be repudiated without technically defying a government war agency.[14]

Executive Order 9299

On September 18, 1942, the fifteen nonoperating railway unions served notice on the carriers that they desired substantial wage increases. Negotiation and mediation broke down, but before an emergency board could be appointed from the National Railway Labor Panel, a controversy arose as to whether the award of a panel would be subject to review by the National War Labor Board in accordance with the Stablization act which became law on October 2, 1942. The carriers favored and the unions opposed any such review by the War Labor Board. The latter won their point with the President. On February 4, 1943, he issued Executive Order 9299, which provided that awards of boards appointed from the National Railway Labor Panel would become effective within thirty days after their issuance "unless and except to the extent that the Economic Stabilization Director shall otherwise direct."[15] Executive Order 9299 further provided that all voluntary wage adjustments concerning carriers subject to the Railway Labor act were removed from the jurisdiction of the War Labor Board and placed under the direction of the chairman of the National Railway Labor Panel, who was instructed to process them in accordance with the Stabilization act.

The 1942-43 Nonoperating Case

Soon after the issuance of Executive Order 9299 an emergency board, headed by Professor I. L. Sharfman, was appointed to hear the nonoperating unions' wage case. Hearings were still in effect on April 8, 1943, when the President issued Executive Order 9328[16]—the hold-the-

[14] Technically, of course, W.L.B. orders were only "advisory." To all but certain extremists, however, the W.L.B. order was a command to be obeyed.

[15] The text is found at 6 War Lab. Rept. V.

[16] The text is found at 7 War Lab. Rept. VII.

line order. The Sharfman board adjourned its hearings in an attempt to examine the effect of Executive Order 9328 on the deliberations and also in an attempt to settle the dispute by mediation. Finally, on May 26, 1943, the board issued an award granting the unions an 8 cent general increase and indicating that, since its proceedings commenced prior to its issuance, Executive Order 9328 was not taken into account.

The carriers filed a protest with Judge Vinson, newly appointed Director of Economic Stablization, maintaining that the award was contrary to stabilization principles. Judge Vinson set it aside on June 23, 1943, stating that the award violated the Little Steel formula, but that some increases were warranted on that basis, and others to the lower paid workers on the basis of "substandard" wages.[17] Judge Vinson attempted to reconvene the board, but Professor Sharfman refused, saying he had no authority to rehear the issues. Dr. William M. Leiserson, chairman of the National Railway Labor Panel, also declined to reconvene the Sharfman board.

Meanwhile, the unions protested bitterly against Judge Vinson's act and took steps to circumvent it. They declared that President Roosevelt had actually urged them to accept the award of the Sharfman board before Vinson set it aside. They also induced the carriers to agree to pay the 8 cent general increase "subject to any existing requirement of law" and then arranged for the introduction in Congress of joint resolutions providing that they should receive the 8 cent general increase, the stabilization laws to the contrary notwithstanding. This resolution passed the Senate on December 9, 1943, by a vote of seventy-four to four, with Senate Majority Leader Barkley and (then) Senator Truman leading the fight in behalf of the unions. Before the House of Representatives acted, however, the President, by Executive Order 9328, appointed a new emergency board headed by Judge Shaw to reëxamine the whole wage question. In so doing, the President acted not in accordance with the Railway Labor act, but pursuant to his war powers.

The Shaw board reëxamined the evidence and recommended increases varying from 10 cents per hour for the lowest paid to 4 cents per hour for the highest paid, in accordance with the principles laid down by Judge Vinson. The unions, however, rejected this award. Then in January, 1944, after the President had taken over the railroads to avert a nation-wide strike of the operating unions and had awarded those unions extra compensation "in lieu of overtime pay,"[18] he made a similar award to the nonoperating unions. The carriers and these unions

[17] *Opinion of Stabilization Director,* 9 War Lab. Rept. XII.

[18] See below, pp. 332-34.

thereupon reached agreement on increases varying from 9 to 11 cents per hour. Although this meant that all the nonoperating workers received greater increases than were originally awarded by the Sharfman board and which he had rejected, Judge Vinson approved this settlement arranged by the President.[19]

The Diesel Case

As early as 1937 the Brotherhood of Locomotive Fireman and Enginemen and the Brotherhood of Locomotive Engineers had set forth separate demands for a change in the methods of payment of engineers and firemen working on diesel engines and for the employment of additional crew members on diesels. The controversy was postponed for various reasons and was finally heard by a board of the National Railway Labor Panel, which issued its report on May 24, 1943. The report denied most of the requests of the unions for new methods of payment which would have resulted in substantially increased wages; denied the attempts of either the firemen or the engineers to force the employment of additional helpers on diesel engines, a demand which would have created thousands of featherbedding jobs if it had been granted; and provided that in those instances where a second man or helper was to be employed on diesel engines in accordance with previous agreements, such persons should come from the ranks of the firemen rather than the engineers, thus ending a jurisdictional dispute of long standing. The board did grant a few of the unions' demands which, in effect, created new job classifications and higher wages for engineers and firemen who are employed on the heaviest type of diesel locomotives, and made other minor adjustments.

The railroads were satisfied with the report of the emergency board which had based its decision on thirty-nine volumes of evidence as well as numerous exhibits, briefs, etc. Mr. D. B. Robertson, president of the Brotherhood of Locomotive Firemen and Enginemen, however, was quite displeased and he proceeded to Washington to confer with President Roosevelt. On May 29, 1943—just five days after the emergency board had made its report—Mr. Roosevelt wrote J. J. Pelley, president of the Association of American Railroads, in part as follows:

> I am advised that the Emergency Board report is quite unsatisfactory to the Brotherhood of Locomotive Firemen and Enginemen and that some of the

[19] Hearings before the Senate Committee on Interstate Commerce, 78th Cong., 1st sess., on S. J. Res. 91; and Hearings before House Committee on Interstate and Foreign Commerce, 78th Cong., 1st sess., on S. J. Res. 91 and H. J. Res. 187 (Washington, Supt. Docs., 1943). Both contain a complete account of the dispute, including reports of the Sharfman and Shaw boards, except for the final terms of the settlement, which are found at 13 LRR 615.

most important questions have not been resolved. As you may well understand, I have not had time to study the report in detail. I am anxious, however, that in these troublesome times everything possible and fair—but within the National Policy—be done to dispose of management-labor disputes without in any way interfering with the full and adequate prosecution of our war program.

This situation suggests the advisability of arranging a joint conference of management and employee representatives for the purpose of endeavoring to resolve the points in question. Will you be good enough to initiate steps to bring about such a conference or, if this does not come within your functions, will you please see that it is referred to the proper representatives of the Carriers. I understand that Mr. Robertson, President of the Brotherhood of Locomotive Fireman and Enginemen, is prepared to enter into such a joint conference.

On June 5, 1943, Mr. Pelley replied in part:

It is noted that the Emergency Board report is not satisfactory to the Brotherhood of Locomotive Firemen and Enginemen and that, according to the advice reaching you, some of the most important questions have not been resolved and a further joint conference is suggested. Candor compels me to say, however, that a careful study of the report indicates that all questions involved in the dispute were definitely resolved by the Board, and there would, therefore, be nothing to consider in a joint conference except questions which were clearly and definitely disposed of.

We will appreciate, of course, and share with you your anxiety that in these troublesome times everything possible and fair—but within the National Policy—be done to dispose of management-labor disputes without in any way interfering with the full and adequate prosecution of our war program. Therefore, in view of your understanding that Mr. Robertson, President of the Brotherhood of Locomotive Firemen and Enginemen, is prepared to enter into a joint conference, and, in accordance with your request that one be held, this is to advise that I will be glad to immediately arrange to have such a conference initiated and at as early a date as possible.

As a result of the conference suggested by the President, the carriers agreed to substantially more increases than the emergncy board had rcommended, and these became effective upon approval by the chairman of the National Railway Labor Panel on August 29, 1943.[20]

1943 Operating Case

Early in 1943 the five operating brotherhoods made demands for a 30 per cent general increase and other concessions. When mediation failed, it was agreed to postpone the appointment of an emergency

[20] The entire record of this case has been published in two large volumes by the Eastern Carriers' Committee, New York.

board until the completion of the diesel and nonoperating cases. Consequently, the board appointed to hear the case, which was headed by Judge Stacy, was not ready to make its report until September 25, 1943, at which time it recommended a 4 cent general increase for operating crews.

Not only did the operating brotherhoods reject this award, but, terming it an "insult," they began plans for a nation-wide strike. At this point President Roosevelt intervened and, failing to mediate, offered to arbitrate the dispute personally. Two of the five unions—the Brotherhood of Locomotive Engineers and the Brotherhood of Railroad Trainmen—accepted this offer and called off their strike plans, but the other three—the Brotherhood of Locomotive Firemen and Enginemen, the Order of Railway Conductors, and the Switchmen's Union—all rejected his offer. Whereupon, on December 27, 1943, the President, by executive order, took over the railroads in order to avert the threatened stoppage.[21]

The President promptly awarded one week's vacation with pay and an additional 5 cent per hour increase to the members of the trainmen's and engineers' unions. He stated that the latter was compensation for the fact that railroad crews often had to spend time away from home; and also compensation for the fact that railroad employees were not covered by the provisions of the Fair Labor Standards act, which provide for time and one-half after forty hours' work in any week.[22]

The same award was offered to the firemen, the conductors, and the switchmen, and they shortly accepted it, with some minor administrative modifications. The railways were then returned to private ownership.[23]

The Pacific Electric Railway Case

The Pacific Electric Railway Company, a subsidiary of the Southern Pacific system, and a carrier within the meaning of the Railway Labor

[21] It should be noted that President Roosevelt did not take over the railroads under provisions of the War Labor Disputes act of June 25, 1943. His authority to do so was not clear since Section 2 (c) of that law excluded railways from the definition of "war contractor." Consequently, he acted pursuant to the same 1916 legislation by which President Wilson took over the railways in 1917. Had President Roosevelt acted under the War Labor Disputes act, his action in granting additional adjustments to the carriers would apparently have violated Section 4 of that act which required government operation according to conditions previously in effect.

[22] Apparently the President did not consider that most railwaymen do not spend time away from home; and that the effect of such absences has long been considered in determining wages. The President apparently also did not take note that many rules secured by the brotherhoods already provided more generous over-time compensation prior to his award than is required by the Fair Labor Standards act.

[23] See 13 LRR 142, 517 and 545 for a history of this dispute.

act, is engaged principally in transporting interurban and local city passengers and interline and local freight in the Los Angeles metropolitan area in which the Los Angeles Railway Company also operates. The Los Angeles Railway is not, however, covered by the Railway Labor act. The two systems serve the urban area of Los Angeles in common, although the Pacific Electric is primarily a freight carrier with much more extensive operations covering three additional counties. The manner in which labor relations on these neighboring carriers have been handled during the war illustrates the difficulties of duplicate agencies in the labor relations field.

In May, 1943, an emergency board appointed from the National Railway Labor Panel awarded increases of approximately 13 cents per hour to the operating employees of the Pacific Electric Railway Company. During the same period, the Los Angeles Railway Company and the union of its employees applied to the War Labor Board for a voluntary 10 cents per hour increase. On July 19, the W.L.B. denied the application of the Los Angeles Railway Company. On the same day, Judge Vinson, after first extending for thirty days the time limit for the effective date of the Pacific Electric emergency board award, reduced it from 13 cents per hour to 3 cents per hour, on the basis of comparable rates paid by the Los Angeles Railway Company.

The actions of Judge Vinson and the War Labor Board precipitated stoppages on both carriers. The president of the Brotherhood of Railroad Trainmen, whose union is the representative of the Pacific Electric's operating employees, visited Washington and consulted with Vinson's superior, Justice James F. Byrnes, then Director of War Mobilization. Justice Byrnes appointed a fact-finding committee of three judges to survey the whole West Coast transit situation. On September 10, 1943, this fact-finding board submitted its report which called attention to the increased workload on various urban transit lines. On the basis of this report, the War Labor Board reconsidered the case of the Los Angeles Railway Company and approved a 5 cents per hour increase and certain other adjustments which had previously been denied. Since the procedure of the National Railway Labor Panel provided for no means of reconsideration, President Roosevelt, by Executive Order 9379, issued pursuant to his war powers, appointed a new emergency board. It reconsidered the Pacific Electric case and recommended an additional 5 cents per hour which Judge Vinson approved on October 24, 1943.

The adjustments on these neighboring lines did not end here, however. In September, 1944, the War Labor Board established its "workload" bonus system for urban transit lines and, pursuant thereto, employees of the Los Angeles Railway Company received bonuses of

5 to 7 cents per hour. The see-saw continued when, effective January 1, 1945, a board of the National Railway Labor Panel awarded the employees of the Pacific Electric Railway Company 5 cents per hour based on President Roosevelt's award to the operating crews of the standard railways after he had taken over the railroads in December, 1943; and an additional 3 cents per hour, apparently in lieu of the fact that no W.L.B. workload bonus was available to them.[24]

The Chicago-Milwaukee Interurban Cases

In Chicago a situation exists similar to that in Los Angeles. The Chicago, North Shore and Milwaukee and the Chicago, Aurora and Elgin electric railroads have been designated carriers within the Railway Labor act; and by means of wage increases secured pursuant to the procedure of the act, the employees of these lines have been able to boost their wages considerably above the wages paid by competing interurban transit carriers which are outside the coverage of the act. The wages on both the North Shore and the Chicago, Aurora and Elgin, however, are below those paid on standard railroads, which is the wage goal of the employees of these interurban lines.

An emergency board appointed from the National Railway Labor Panel awarded these employees increases of 16 cents per hour, but on July 9, 1943, the same day on which the award was to go into effect, Judge Vinson reduced it to 14 cents on the grounds that the Little Steel formula would not permit a greater amount. The following year a second emergency board gave these employees an additional 5 cents based on the award that the President gave to the operating unions after he took over the railroads in December, 1943.

The Brotherhood of Railroad Trainmen and the Brotherhood of Locomotive Firemen and Enginemen, who represent these employees, then called strikes in protest against the meagerness of the latter award. The strikes lasted for two weeks, after which the unions accepted the award and the employees returned to work.[25] Soon thereafter, the unions set in motion machinery to start the case all over again.

[24] *Los Angeles Railway Corp.*, 12 War Lab. Rept. 252; *Pacific Electric Railway Company: Opinion of Economic Stabilization Director*, 11 War Lab. Rept. VIII; *Local Transit Bonuses*, WLB Press Releases Nos. B-1751 and B-1751a, September 15 and 22, 1944; *Report to the President by the Emergency Board Appointed Pursuant to Executive Order 9172 to Investigate Dispute between Pacific Electric Railway Company and Certain Operating Employees*, 1944; and *Report of the Special Committee to Investigate Transit Systems of the Pacific Coast Area*, 1943.

[25] *Chicago, N.S., and Milwaukee Ry. Co.: Opinion of Stablization Director*, 9 War Lab. Rept. XV; *Report to the President by the Emergency Board Appointed Under Section 10 of the Railway Labor Act to Investigate Disputes Between Chicago, N.S., and M. Ry. Co., et al.*, 1944; and 15 LRR 363.

The Bingham and Garfield Case

On November 8, 1944, President Roosevelt appointed an emergency board to prevent a strike by members of the Brotherhood of Locomotive Firemen and Enginemen on the Bingham and Garfield railway, an Utah carrier engaged principally in ore transport. The union's major demand was that a "fireman," or helper, be added to the carrier's electric switch engines in the interest of safety. The board found that the demand was a "featherbedding" request. Safety, it found, could not be involved since over a twenty-year period only one accident had occurred, and that involved neither death nor personal injury. During this period, the Bingham and Garfield had transported 344,000,000 tons of ore. Hence, the emergency board recommended that the union request be denied. The Brotherhood of Locomotive Firemen and Enginemen refused to accept the board's recommendation, and made plans to strike, with the result that President Roosevelt took over the railroad for the duration of the war.[26]

The Amendment to the Stabilization Act of 1944

Not only were the railroad unions successful in overriding the attempts of Judge Vinson to veto wage increases which he found to contravene wage stabilization policy, but they also succeeded in removing the jurisdiction of the stabilization office over awards of emergency boards appointed either from the National Railway Labor Panel, or pursuant to Section 10 of the Railway Labor act. At their behest, a rider was passed to the Stabilization act when it was renewed in June, 1944, which reads:

In any dispute between employees and carriers subject to the Railway Labor Act, as amended, as to changes affecting wage or salary payments, the procedures of such Act shall be followed for the purpose of bringing about a settlement of such dispute. Any agency provided for by such Act, as a pre-requisite to effecting or recommending a settlement of any such dispute, shall make a specific finding and certification that the changes proposed by such settlement or recommended settlement are consistent with such standards as may then be in effect, established by or pursuant to law, for the purpose of controlling inflationary tendencies. Where such findings and certification are made by such agency, they shall be conclusive, and it shall be lawful for the employees and the carriers, by agreement, to put into effect the changes proposed by the settlement or recommended settlement with respect to which such finding and certification were made.[27]

[26] *Report of the Emergency Board Appointed Pursuant to Section 10 of the Railway Labor Act to Investigate Dispute Between Bingham and Garfield Railway Company and its Employees,* etc., 1944.

[27] Pub. Law No. 383, 78th Cong., Sec. 202.

A situation analogous to that created by this rider would have existed if Congress had enacted a law providing that the recommendation of a panel appointed by the War Labor Board could have been legally accepted and put into effect by the parties, regardless of whether the WLB or the Stabilization Office considered it to contravene wage stabilization policy, so long as the panel certified that the recommendation did not do so.

The Illinois Central Case

On May 24, 1945, President Truman appointed an emergency board pursuant to Section 10 of the Railway Labor act in order to avert a threatened strike on the huge Illinois Central System by the Brotherhood of Locomotive Firemen and Enginemen. The emergency board found that the trouble was essentially a jurisdictional dispute between the above named brotherhood and the Brotherhood of Locomotive Engineers over the seniority status of demoted engineers and promoted firemen, although it also involved a claim which had been submitted to the National Railroad Adjustment Board by the firemen and then withdrawn "with prejudice" to a further submission.

After noting that the jurisdictional question could have been settled by recourse to the Adjustment Board except for an agreement among the unions not to submit jurisdictional claims to that agency, the emergency board recommended a compromise settlement. As to the second issue, the emergency board found that a withdrawal "with prejudice" of a case from the Adjustment Board foreclosed further adjudication.

Dissatisfied with the report, the Brotherhood of Locomotive Firemen and Enginemen called a strike for August 24, 1945. At this point, John W. Snyder, Director of War Mobilization and Reconversion, intervened, and called the parties and the emergency board to Washington in an attempt to mediate the dispute. When mediation failed, President Truman ordered the railroad seized, and the union called off the strike. Thus the first industrial establishment seized to avert a strike after war came and the first after war ended in both instances were railroads.[28]

III. *Concluding Remarks*

The record of labor adjustment under the Railway Labor act during the war period does not lend much support to those who see in the procedures of the act a "model" labor law. Much of the failure of the act to maintain industrial peace unaided during the war has been

[28] *Report of the Emergency Board appointed May 24, 1945 in re . . . Illinois Central System*, 1945; New York *Times*, August 24, 25, 1945.

blamed on Judge Vinson. When he modified downward awards of emergency boards in the 1943 national nonoperating, the Pacific Electric, and the Chicago-Milwaukee interurban cases, he was widely criticized for alleged unwarranted interference with the tried and true procedures of the Railway Labor act. There is no doubt that he acted without either diplomacy or a proper consideration of the delicate tensions inherent in labor relations, especially by his method of issuing his directives almost at the moment before an award would have automatically gone into effect.

If, however, it be granted that Judge Vinson acted without tact, it must also be granted that he acted in accordance with the law. As he pointed out, "The Stabilization Act of October 2, 1942, does not exempt railway employees or . . . say that all wages are to be stabilized except those of railway workers. . . ."[29] And Executive Order 9299, which was issued at the request of the railway unions, which were anxious to avoid going before the National War Labor Board, did provide that awards of emergency boards were to become effective thirty days after their issuance "unless and except to the extent that the Economic Stabilization Director shall otherwise direct." That Judge Vinson interpreted this language to mean that he had the same authority to require that the awards of railway emergency boards conform to the wage stabilization program as he did to require of War Labor Board directive orders, is open neither to challenge nor criticism unless one believes that railway labor is entitled to benefits and privileges not available to other industrial workers.

Judge Vinson rejected this tenet and attempted to treat all industrial workers alike. He was rebuffed by the President who gave the nonoperating employees more than the original award which Judge Vinson had vetoed; and by Congress, which removed the awarded of emergency boards from the jurisdiction of the stabilization director.

The charge that Judge Vinson's directives interfered with the procedure of the Railway Labor act must also be placed in its proper relationships. True, he modified awards which had been made pursuant to the procedure outlined in the act. But both the Economic Stabilization Office and the War Labor Board have modified downward or totally disapproved thousands of voluntary wage applications submitted by employers and unions where such applications have proposed adjustments deemed incompatible with the wage stabilization program. Many of these applications were the results of agreements achieved by mediation by the United States Conciliation Service or by state mediation bodies. These disapprovals have caused considerable

[29] Hearings before House Committee on Interstate and Foreign Commerce 78th Cong., 1st ses., on S. J. Res. 91 and H. J. Res. 187 (Washington, Supt. Docs., 1944), p. 79.

unrest and dissatisfaction among the affected employees. Nevertheless, they have been considered necessary to combat inflation, and they have not resulted in charges that "procedures" under various federal and state mediation services were being improperly interfered with. Again the basic question was whether railway labor was to receive the same type of special privileges under wage stabilization that it has already received under adjustment machinery and social insurance.[30] Judge Vinson declared for equal treatment; the President and Congress overruled him.[31]

It should be emphasized, moreover, that Judge Vinson did not initiate the overturning of awards of emergency boards, nor did he devise any new method of settling disputes under the Railway Labor act. The 1941 wage movement set the pattern for the adjustment of railway labor disputes during wartime. The railway unions themselves rejected the award of the Morse emergency board, and because of their economic and political power, they were able to obtain the aid of President Roosevelt in putting pressure on the carriers to grant additional compensation over and above what the Morse board had recommended. Subsequent cases were handled in a like manner, thus providing considerable evidence that the procedures of the Railway Labor act are effective in maintaining labor peace only so long as they provide results satisfactory to the unions.[32] When the contrary occurs, as it so often did during the war, it appears that the awards of emergency boards are simply rejected and the railway unions make use of their political power to achieve their ends.

These wartime developments should not be surprising. The Railway Labor act was conceived by the railway unions and its adoption into law—particularly the 1934 amendments—stands as testimony to their political power. What could be more logical than the further use of political power by these unions to achieve their desired ends whenever the procedures of the act fail to do so?

As a matter of fact, governmental adjustment machinery, such as the Railway Labor act, or protective legislation, such as the Railway

[30] In regard to social insurance, see R. B. Robbins, *Railroad Social Insurance: Favored Treatment Versus Social Insurance*, Nat. Econ. Problems, no. 405 (New York, Am. Enterprise Assoc., 1945).

[31] That is not to imply that special privilege did not go to other groups which were able to muster considerable economic and political pressure. The experience of the United Mine Workers, The Teamsters Union, and the Musicians' Union might also be cited among those who were able to secure favored treatment under stabilization.

[32] That is not to imply that if the railway unions were to demand a 30 per cent increase, they would reject an emergency board recommendation of any less. To those familiar with the bargaining process, however, a recommendation of 18½ per cent may be very satisfactory to a union demanding 30 per cent, whereas a 10 per cent recommendation may be unsatisfactory.

Labor act or the Wagner act, or any form of governmental sponsored arbitration, either voluntary or compulsory, is not only generally the consequence of organized labor's political power, but it insures continued labor activity in the political field. Labor leaders cannot afford many adverse decisions from government tribunals without seriously endangering their positions within the union. They have been selected to produce results. If they fail, their constitutents will replace them with aspirants who promise success where their predecessors have failed. Hence, labor leaders must seek to prevent the appointment of unfriendly or even neutral persons to key administrative posts, and they must keep up an unending pressure on government labor agencies. In short, union leaders must develop political machines capable of decisive action in enough instances so as to command the respect of elected and appointed officials. These facts have been as well known to the conservative leaders of the railway unions for twenty-five years as they have been to the more radical leaders of the CIO Political Action Committee since the formation of that organization. And it is worth noting that in other countries where government supervised collective bargaining prevails, *e.g.*, Australia, New Zealand, and Sweden, labor is in politics on an even greater scale than in the United States.[33]

There are other factors which contribute to peace on the rails besides effective use of political power by the unions when the results of the procedure of the act do not suit them. Government control of railway labor relations is merely a part of the entire policy of regulation, which includes also control of rate setting. Price relief through the Interstate Commerce Commission, such as was granted as part of the 1941 settlement, cannot be ignored by those who would use industrial relations on the railroads as a model for industry generally.

Moreover, the political power of the railway unions is not always used against the railroads. The unions and the carriers have many aspirations in common. For example, the railway unions have used their political power in many states to induce legislatures to put restrictions on the tonnage which trucks may carry. In Congress, the railway

[33] Once labor has decided on a political route to achieve its ends, it must of course remain in politics to preserve its position and to insure friendly administration. The course it takes in politics may vary. *E.g.*, while the CIO-PAC is dedicated to mass political action, the railway unions have favored a policy of judicious "rewarding friends and punishing enemies." Since the railway unions are located in every state and Congressional district, and since their membership has been quite alert in voting in primaries where small, cohesive numbers count, they have achieved a reputation for "producing at the polls" among Congressmen and state legislators. The success of the railway union is attested by the numerous labor and social laws which have been adopted at their behest, as well as by the respect in which such an astute politician as the late President Roosevelt held them.

unions have been important political forces behind the adoption of such legislation as the Transportation act of 1940, the Motor Carrier act of 1935, and the Emergency Railroad Transportation act of 1933, all of which have been at least partially aimed at reducing the competition which other fields of transportation have given the railroads.[34] More recently, these unions have supported the elimination of land grant rates—the especially low rates which the federal government receives on war materials and personnel—and the exemption of the railroads from the provisions of the Sherman Antitrust act. The fact that union and carriers often "hunt" together in legislative halls is conducive to labor peace.[35]

As was noted in the introduction, the period surveyed here is an emergency one and includes only a portion of the history of the Railway Labor act. One must, therefore, be cautious about generalizing the conclusions. Nevertheless, they do have a bearing on such legislative proposals as the Ball-Burton-Hatch bill and President Truman's fact-finding proposal, both of which are modeled on the Railway Labor act.[36]

In adapting the procedures of the Railway Labor act to industry generally, the proponents of these bills do not appear to have given due considerations to the peculiar legal and institutional framework in which the railroad industry operates. The significance of price control and union political influence for peace in the railway industry have apparently been ignored. Moreover, the political method of settling railway labor disputes during the war lends little weight to the belief that facts disseminated to the public through an impartial board would curb industrial strife. Public opinion does not appear to play the decisive rôle which Mr. Truman would assign to it. During the war, when a strike on the rails would have been catastrophic, unions in a superior bargaining position could repeatedly ignore the recommendations of railway emergency boards which were supposed to enlighten and mobilize public opinion. Judging by the railroad experience, if the appointment of such boards becomes a fairly common practice throughout industry, the public may be expected to take less, rather than more, interest in the procedure.

Although some controversies are subject to settlement once the facts

[34] See, *e.g.*, Ralph L. Dewey, "Transportation Act of 1940," *Am. Econ. Rev.*, Vol. XXXI, No. 1 (Mar., 1941), pp. 17-22.

[35] Such political aid from union to industry is not confined to the railway industry. Many unions have, *e.g.*, pressed for tariffs to support an industry.

[36] Reference is to S. 1171 (Ball-Burton-Hatch); and S. 1661 and H.R. 4908 (Truman proposals), all bills of the 78th Cong., 1st sess. Application of these conclusions is, however, also appropriate to many proposed bills which may become law as a result of the recent coal strike. For a more detailed discussion, see the writer's article, "A Critique of Pending Labor Legislation." *Pol. Sci. Quart.*, June, 1946.

are known, it is usually the interpretation of known facts which is at issue, and there are likely to be as many interpretations as there are interests involved. Fact-finders, or emergency board members, are therefore generally forced to give due weight to the bargaining power of the parties if they want their findings accepted. Such "fact-finding" differs widely from that contemplated by Mr. Truman.

There is another very real danger in these fact-finding proposals. Mr. William H. Davis, former chairman of the National War Labor Board, has repeatedly pointed out that unions and employers refused to bargain because they thought that they might obtain more from the War Labor Board than they could by bargaining. The existence of elaborate fact-finding machinery would likewise influence irresponsible elements in both groups to refuse to settle the matters at issue in bargaining in the hope that more might be gained by government intervention. This would aggravate the strike problem.

The proposals based on the procedures of the Railway Labor act do not offer a short-cut to the millennium in industrial relations. Moreover, the experience under the act in wartime is replete with evidence that the millennium has not been attained on the railroads. It is questionable whether there is any substitute for real collective bargaining by responsible men desirous of reaching agreement; and it is certainly doubtful whether responsibility can be inculcated into existence by legislation. The attempt to use the Railway Labor act as the classic example of "model" labor relations legislation disregards the wartime experience and its import.[37]

[37] Additional evidence to support the conclusions reached here have been provided by events occurring since the late fall of 1945, when this was written. Late in 1945, all the railway unions demanded substantial wage increases and rule (working conditions) changes. The non-operating unions, and the Conductors, Switchmen and Firemen, agreed with the carriers to drop their demands for rule changes and to submit their disputes to separate arbitration boards created pursuant to the Railway Labor act. Continuing the 1943 split, however, the Engineers and the Trainmen refused to drop their demands for rule changes. Consequently, their dispute was heard by an emergency board.

Both arbitration boards awarded the employees increases of 16 cents per hour. The emergency board, on the basis of these awards, recommended a like increase, and except for a few very minor ones, remanded the proposed rule changes back to the parties for further negotiation.

The unions were unanimous in condemning the awards and the recommendation. The non-operating groups and the Conductors, Switchmen, and Firemen, having agreed to accept binding arbitration, accepted the awards in a technical sense only, for they immediately put into motion the Railway Labor act's machinery, and ordered strike votes, in order to back up their new demands. The Trainmen and the Engineers rejected the emergency board's recommendation and called a nation-wide strike to commence on May 18, 1946.

After the carriers and the unions had failed to resolve their disputes in new bargaining conferences in Chicago, President Truman called representatives of both sides to the White House and urged the necessity of avoiding a strike. When the impasses continued,

the President took over the railroads. The leaders of the Engineers and Trainmen, however, refused to call off the strike until thirty minutes before it was scheduled to commence. Then they announced a postponement for five days. The late postponement came after trains had been cancelled, express embargoed, and some union members had walked out, so that the nation's transportation system was thrown into a state of confusion. The leaders of the two unions made it clear that they postponed the strike only because President Truman implied that they would receive additional increases of at least 2½ cents per hour.

The President's offer, which all the unions but the Trainmen and the Engineers as well as the carriers, accepted, was in the form of an outright bonus of 2½ cents over the arbitration awards to the eighteen unions which had arbitrated their cases, but was made contingent to the Trainmen and the Engineers on their waiving the seven minor rule changes which the emergency board had recommended. When these two unions refused the compromise, a nation-wide railway strike began on May 23, 1946, and lasted two days. It ended on the President's terms as he appeared before Congress to request passage of a drastic strike-control law.

Meanwhile, the carriers have applied to the Interstate Commerce Commission for permission to increase freight rates an average of 25 per cent, and the annual reports of railway presidents and the journals of railway unions are calling for additional restrictions on other forms of transportation in order to "equalize" their competition with the railroads. And to cap the climax, the United States Senate, during the two-day railway strike, passed a bill to curb strikes which embodies the mediation and fact-finding provisions of the Railway Labor act!

MARX AND ECONOMIC CALCULATION

By M. M. Bober*

The integrating principle of economics lies in maximizing satisfactions by the use of available scarce resources, in man-hours and the bounties of nature, as well as in savings resulting in capital. The allocation of these resources among the various spheres of enterprise, the combination of varieties of one resource with varieties of another resource, the substitution of one resource for another, and the division of income between consumption and saving, are central in achieving maximum satisfaction with the resources at hand.

Under capitalism the guide to the distribution of resources among the channels of economic activity is price, the price of consumer goods and the price of the resources, labor, land and capital, in a setting of free enterprise and competition. We balance utilities against costs. To use a few simple examples, in competitive equilibrium the fact that price equals minimum average cost implies that the least expenditure of resources is incurred to obtain a utility; the assertion that the inefficient producer drops out of competition means that the producer who uses up more resources than other producers in order to get the same result is eliminated; and when a high cost and high price are associated with small purchases of a given commodity, the idea is that, because a given utility necessitates a large use of resources, it is enjoyed sparingly.

It is doubtful whether Adam Smith, Ricardo and their early followers, from whom Marx learned much of his economics, put this principle at the heart of economic analysis. To Smith the central problem of political economy was efficient production, to Ricardo the exploration of the principles of the distribution of income. The place of utility was not prominent in their minds. Smith goes no farther than to mention that all production is evidently for purposes of consumption;[1] Ricardo goes no farther than to state that if goods are to be produced at all they must be useful. To Marx economics is preëminently a study of class exploitation in a given society in its evolution to the next, higher, social order, and the object of the economics of capitalism specifically is the investigation of the principles governing the exploitation of the proletariat, the fatal maladies of the system, and its dialectic disintegration into socialism and communism. More

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[1] *Wealth of Nations* (Everyman ed.), Vol. II, p. 155.

than any of his predecessors and even contemporaries, however, he was conscious of the problem, in any type of economy, of the distribution of labor and means of production among the various departments of enterprise to satisfy the wants of the community.

Marx teaches that for Robinson Crusoe and in a capitalist economy alike the controlling principle in the allocation of resources rests on labor-value; and that, under capitalism, the instrumentality which gives effect to this principle is competition. "Chance and caprice," he says, "have full play in distributing the producers and their means of production among the various branches of industry. The different spheres of production, it is true, constantly tend to equilibrium: for, on the one hand, while each producer of a commodity is bound to produce a use-value, to satisfy a particular social want, and while the extent of these wants differs quantitatively, still there exists an inner relation which settles their proportions into a regular system; . . . and, on the other hand, the law of the value of commodities ultimately determines how much of its disposable working-time society can expend on each particular class of commodities." This equilibrium, he continues, is constantly upset, but there is "an *a posteriori,* nature imposed necessity controlling the lawless caprice of the producers" by the enduring work of value and competition.[2]

However, the law of labor-value presiding over the pages of *Capital,* Volume I, asserts itself merely as a norm. In the developed stage of capitalism the "price of production" of Volume III dominates the market. The business man seeks a profit on his investment, and capitals of equal magnitudes, whatever their organic composition (*i.e.,* the ratio of capital to wages, in terms of labor-time) will have to bring equal profits. Otherwise the capital that yields a smaller rate of profit because the labor employed, the source of surplus-value, bears a smaller ratio to the capital invested than is the case in another branch of industry will migrate to this other branch, until the rate of profit is equalized in all productive spheres. The migration of capital from sphere to sphere transforms value into price of production.[3] Accordingly we find Marx alluding at times to prices of production as controlling the apportioning of resources, although he hastens to add that labor-value is the matrix of prices.[4] To him, "The exchange, or sale, of commodities at their value is the rational way, the natural law of their equilibrium."[5]

[2] *Capital,* Vol. I (Chicago, Kerr, 1909), pp. 390-91, 88; Vol. III, pp. 213, 226-27, 1026.

[3] *Ibid.,* Vol. III, pp. 186, 206, 212, 230.

[4] *Ibid.,* Vol. III, p. 745.

[5] *Ibid.,* Vol. III, p. 221.

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It is worth emphasizing that he had a poor opinion of the way in which price and competition operate in a capitalist society. Although performing, after a fashion, a coördinating function, price and competition are synonymous with anarchy and planlessness, underscoring the antithesis between the order inside the plant and the chaos outside, in the market at large. The quest for profits is to him antagonistic to production for the "satisfaction of social needs." The desire for gain is a perverting influence, and there is "no necessary but only an accidental connection between the volume of society's demand for a certain article and the volume represented by the production of this article."[6] A scheme of production based on the personal calculations and independent decisions of self-seeking individuals for unascertained markets not only breeds maladjustments but has to rely on "blind laws" to impress some order upon "the lawless caprice of the producer," generally through the pressure of competitive self-interest and periodically through crises. Competition stands for anarchy; it is *bellum omnium contra omnes*.[7] Genuine organization in production postulates deliberate collective planning. "The point of bourgeois society," writes Marx, "consists precisely in this, that *a priori* there is no conscious social regulation of production."[8]

In view of his low esteem of calculation under capitalism, his unconcern over monopoly and protection as injurious departures from the optimum distribution of resources is not to be wondered at. To him monopoly profit is merely a redistribution of the loot, surplus-value; what one monopolist seizes another exploiter of labor fails to pocket. Inasmuch as wages are determined by the irreducible customary standard of living of the working population—and this is essentially Smith's, Ricardo's and Mill's theory—if laborers have to purchase monopolized articles their money wages are correspondingly advanced. Only if the wage is above the customary minimum will it fail to rise and the laborers will be hurt by monopoly.[9] In Marx's writings there is no counterpart of Smith's attacks on monopoly. Similarly with free trade. It is desired by manufacturers for the reason that imports cheapen food, so that wages can be lowered and profits raised. Marx favors free trade only because it spreads capitalism

[6] *Ibid.*, Vol. III, pp. 220, 303, 724n.

[7] *Ibid.*, Vol. III, pp. 301, 1026; Vol. II, p. 196; Vol. I, p. 391. That he is familiar with the functioning of price, supply and demand, and competition is clear to any one who reads him. See, *e.g.*, *Capital*, Vol. III, chaps. IX, X, XLI, and Vol. II, pp. 392-93.

[8] *Letters to Dr. Kugelmann* (New York, 1934), p. 74. *Cf.* Engels, *Dialectics of Nature* (New York, 1940), p. 19.

[9] *Capital*, Vol. III, p. 1003.

abroad, intensifies it at home, and, deepening its antagonisms, hastens the revolution.[10]

His reluctance to see in the work of entrepreneurs an organizing aspect of production is emphasized by his treatment of profits. To his mind, profits in the strict sense, that is, the share left after the deduction of interest and rent from surplus-value, stands for robbery, like the rest of surplus-value. There is no specific function in a capitalist economy for which profits can be claimed as a reward.

He is familiar with the function of management inside the factory. The labor process demands the use of hands and head. The two were applied by the same person in the days of the independent craftsman; but capitalist production makes a separation. The workers are treated as automatons, while "the knowledge, the judgment, the will" are concentrated in the capitalist. Whenever production is "social" in character, entailing the coöperation of many workers, a "directing authority," a "commanding will" is needed to articulate the multitude of tasks in a comprehensive scheme of division of labor. Marx likens this function to that of the general of the army or the leader of an orchestra.[11] Too, the employer attends to the purchase of the proper quantity and quality of materials and labor; and he takes care that the work is performed efficiently.[12]

But, Marx contends, these functions can be delegated to a hired manager for modest "wages of superintendence," as is the practice in workers' coöperatives and joint-stock companies. If the capitalist claims the rôle as the guiding genius of production he is doing so because he is the owner of capital and, moreover, under false pretenses, inasmuch as the tasks which he affects to perform are discharged by his managers. "It is not because he is a leader of industry that a man is a capitalist; on the contrary, he is a leader of industry because he is a capitalist. The leadership of industry is an attribute of capital, just as in feudal times the functions of general and judge were attributes of landed property." Wages of superintendence and profits proper are distinct categories.[13]

Aside from the ordinary work of factory management he sees no place for the entrepreneur. He mentions that the costs of running a concern based on a new invention are high and that "the first leaders in a new enterprise are generally bankrupt," and only those who

[10] Speech on *Free Trade*, reprinted as an appendix to *Poverty of Philosophy* (Chicago, 1910).

[11] *Capital*, Vol. I, pp. 557, 396-97, 363; Vol. III, p. 451.

[12] *Ibid.*, Vol. I, pp. 205, 219.

[13] *Ibid.*, Vol. I, pp. 213-15, 364-65; Vol. III, pp. 449-58.

buy them out at bargain prices reap profits. "It is, therefore, generally the most worthless and miserable sort of money-capitalists who draw the greatest benefits out of the universal [*i.e.*, scientific] labor of the human mind."[14] But we do not find him voicing the idea that judgment and risk are involved in the introduction of innovations, and that inventions, though they may represent interesting scientific achievements, may not be economical in view of market situations. On the contrary, inventions are, in his view, merely the gratuitous fruit of "social labor." Discussing the general improvements which reduce the cost of the constant capital of a given employer, he observes: "Such a development of the productive power is traceable in the last instance to the social nature of the labor engaged in production; . . . to the development of intellectual labor, especially of the natural sciences. The capitalist thus appropriates the advantages of the entire system of the division of social labor."[15]

There is likewise no discussion of the business man's uninsurable risks in introducing new commodities, in formulating long-range plans for his place in industry, in contending with shifts in demand and costs, and in facing other varieties of uncertainty in a dynamic world, while his commitments to the hired, borrowed and leased resources are fixed beforehand. The *Communist Manifesto* pays tribute to the enormous achievements of capitalism prior to its maturity, but there is no intimation in his writings that the entrepreneur deserves credit for such achievements, and that risk-taking is a coördinating and dynamic function.

Of a superior character is, to Marx's mind, economic calculation in a communist society. Under capitalism, he teaches, the commodity and production dominate society; under communism production is brought under "common control as a law understood by the social mind," and "socialized man, the associated producers regulate their interchange with nature rationally, bring it under their common control, instead of being ruled by it as by some blind power."[16]

The objectives which the "social mind" will aim to achieve are two: one, the allocation of labor-time to various industries in accordance with social demand; and, two, the distribution of the total income among the producers in accordance with the labor-time expended by them. In both cases value serves as the underlying principle. Says Marx: "Only when production will be under the conscious and prearranged control of society, will society establish a direct relation

[14] *Ibid.*, Vol. III, p. 124.

[15] *Ibid.*, Vol. III, pp. 98, 753-54; Vol. I, p. 422.

[16] *Ibid.*, Vol. III, pp. 301, 307, 954.

between the quantity of social labor-time employed in the production of definite articles and the quantity of the demand of society for them."[17] "In the case of socialized production" producers receive paper-checks entitling them to "a share corresponding to their labor-time."[18]

The independent handicraftsman or peasant, Marx observes, needs no bookkeeping in the management of his affairs, but it is essential in capitalist production "for the control and ideal survey (*Zusammenfassung*) of the process"; bookkeeping is "still more necessary in coöperative (*gemeinschaftlicher*) than in capitalist production."[19] The bookkeeping, he indicates, will run in terms of labor-time, and value, in labor-time, will endure as the governing principle in the allocation of labor among the various employments.[20]

In the absence of the capitalist and his claim to a return on the investment, value as a guide to the allocation of resources does not suffer in a communist society what Marx would call a distortion into "price of production." It is to be noted, however, that in this regard value is even less satisfactory than Marx's "price of production." Among its inadequacies note may be taken of the following. Two articles may embody equal amounts of labor, but one of them may have required the use of more natural resources, which although not the product of labor, are not free goods and must be economized. While of equal value in terms of labor costs these two commodities must be priced differently to prevent the waste of natural resources. Equally, while capital accumulation is going on, *i.e.,* before saving and investment become undesirable in a society, and while inventions take place, the marginal productivity of capital is greater than the marginal productivity of labor. Accordingly commodities with equal costs in labor-time may yet differ in the amounts of instruments used in their production, and must be valued differently.[21]

Marx is not familiar with the marginal analysis although the works of Jevons, Walras and Menger appeared ten years before his death; and without marginal analysis a theory of calculation necessarily suffers unless criteria unknown to traditional economics are contemplated for the new society. He is even unmindful of the intensive cultivation of better than marginal land. In a communist society, he

[17] *Ibid.,* Vol. III, p. 221; *Theorien über den Mehrwert* (Stuttgart, 1905), Vol. II, No. 2, p. 311.

[18] *Capital,* Vol. II, p. 412; *cf.,* Vol. I, p. 90.

[19] *Ibid.,* Vol. II, p. 153.

[20] *Ibid.,* Vol. III, p. 992.

[21] O. Lange, "Marxian Economics in the Soviet Union," *Am. Econ. Rev.,* Vol. XXXV, No. 1 (Mar., 1945), p. 132.

states, instead of allowing the value of wheat to equal the labor cost of the poorest land under cultivation, the value will be the average labor cost of the wheat, per quarter, raised on the land of all the different grades.[22] He does not perceive that it would be more economical to use the better grades of land intensively until the marginal product is the same on all grades. In Marx's solution, a dollar's worth of labor applied to land of lower than average quality will produce less than a dollar's worth of wheat; and labor will be partly wasted in farming while it could be used where it will yield a dollar's worth of product.

Some writers are in the habit of citing passages from Marx in which he designates value as the criterion of calculation in the future society and to conclude that this is his definitive position. But we cannot be sure. Doubt is imported from at least two sources: first, passages that either repudiate this proposition or throw cold water on it, and, second, certain general considerations.

First, as to passages. In *Die Deutsche Ideologie* Marx and Engels write in 1845 that supply and demand exert a dominant influence under capitalism, but under communism "the power of supply and demand dissolves into nothing."[23] In *Anti-Dühring*, embodying mainly Marx's ideas, and the manuscript of which was read to Marx before publication,[24] Engels specifies that in a communist order "society will also not assign values to products."[25] Then comes the curious statement: "The useful effects (*Nutzeffekte*) of the various articles of consumption, compared with each other and with the quantity of labor required for their production, will in the last analysis determine the plan. People will be able to manage everything very simply, without the intervention of the famous 'value.' "[26]

It is likely that, engaged as he is on these pages in hair-splitting differentiations between labor-time embodied in goods, on the one hand, and value as a concept infected with price and exchange connotations, on the other hand, he uses, in the above citation, value in this latter sense, denying the existence of the evil connotations under communism. The paragraph following this citation, however, is far from giving aid and comfort to this suggestion. There Engels reverts to value as labor-time, charges that this concept stands for all the ugly aspects of capitalism, and at the end of the paragraph pronounces

[22] *Capital*, Vol. III, p. 773.

[23] *Marx-Engels, Historisch-kritische Gesamtausgabe* (Berlin, 1927-1932), Part I, Vol. 5, p. 25.

[24] See Engels's statement in *Anti-Dühring* (New York, 1939), Preface, p. 13.

[25] *Ibid.*, p. 337.

[26] *Ibid.*, p. 338.

that it would be absurd "to set up a society in which at last the producers control their products by the logical application of an economic category [value] which is the most comprehensive expression of the subjection of the producers by their own product." In a letter to Kugelmann Marx writes that the allocation of labor in definite proportions "corresponding to the different needs" is a necessity in any system of production, only it changes its form with each particular system; and that under capitalism the form in which the distribution of labor operates is the exchange value of goods. The implication is clear that in the future society the principle of the allocation of labor will assume a different form from exchange value.[27] Finally, we cannot ignore Marx's disapproval, in his appraisal of A. Wagner's *Allgemeine oder theoretische Volkswirtschaftslehre*, of "the presupposition that the theory of value, developed for the explanation of bourgeois society, has validity for the 'socialist state of Marx.'"[28]

Second, there are general considerations casting doubt on Marx's adherence to labor-value as the principle of calculation in a communist society, and outstanding among them are his views on division of labor, and the distribution of income under communism. We are familiar with his attacks on division of labor under capitalism as stultifying human capacities and degrading human dignity.[29] There will be none of it in the new order. In their early days Marx and Engels write that in a communist system the individual will hunt in the morning, fish in the afternoon, rear cattle in the evening, and criticize after dinner, without specializing in any one of these occupations.[30] Toward the end of his years Marx allows Engels, in *Anti-Dühring*, to insist on the same idea. "The old form of division of labor," says Engels, "must be done away with, above all." During the working hours each person will be given the opportunity to develop his physical and mental faculties in all directions. A race of men will be raised who will receive comprehensive training in the scientific basis of production and will be given practical experience in many branches of production from the first step to the last. To institute division of labor in accordance with the natural aptitudes of the worker, and to have "porters" and "architects," is to perpetuate the capitalistic crippling of humanity. After half an hour of architecture the architect will devote his talents to barrow-pushing. "It is a fine sort of socialism

[27] *Letters to Dr. Kugelmann*, letter of July 11, 1868, pp. 73-74.

[28] Quoted by Raya Dunayevskaya, "A New Revision of Marxian Economics," *Am. Econ. Rev.*, Vol. XXXIV, No. 3 (Sept., 1944), p. 535.

[29] See, *e.g.*, *Capital*, Vol. I, pp. 396, 461. *Cf.* Adam Smith, *Wealth of Nations*, Vol. II, p. 264.

[30] *Die Deutsche Ideologie*, *op. cit.*, p. 22.

which perpetuates the professional porter!"[31] Marx talks in the same vein on "variation of work," but in measured language.[32]

The implications of this antagonism to division of labor for the conception of the optimum employment of resources need no elaboration. The loss of the advantages of division of labor; the expenditure of resources to train each individual in several trades; the huge amount of bookkeeping required for the functioning of such a scheme; and the incompatibility of the one criterion, production and utility, with the other criterion, the development of the physical and intellectual capacities of the worker—these are some of the considerations that come to mind. The fact that Marx is unimpressed by such considerations argues that labor-value is not what he has in mind as the guide to the productive organization under communism.

Of the same order is his principle of the distribution of income. In his critique of the Gotha program he makes a distinction between two stages of communism. In the early stage, commonly designated as socialism and still marked by the imperfections of capitalism, a worker is rewarded in proportion to his contribution. He receives a voucher to draw on the social storehouse a quantum commensurate, in terms of hours, with the labor he had rendered. But this conception of right does not appeal to Marx. It is indeed superior to the bourgeois idea of right inasmuch as it excludes surplus-value and exploitation; but it is still burdened with capitalistic postulates. People are unequal physically and mentally. Some can work longer and more intensively; and receive greater remuneration although their wants may be smaller; while others, married or with larger families, have needs exceeding the compensation which they draw for their work. This standard of "equal rights" becomes a standard of "unequal rights for unequal work," Marx declares.[33]

Accordingly, "In a higher phase of communist society, after the tyrannical subordination of individuals in the division of labor and thereby also the distinction between manual and intellectual work, have disappeared, . . . after the productive forces have also increased and all the springs of social wealth are flowing more freely, along with the all-round development of the individual, then and then only can the narrow bourgeois horizon of rights be left far behind and

[31] *Anti-Dühring*, pp. 320-24, 221-22.

[32] *Capital*, Vol. I, pp. 533-34.

[33] *Critique of the Gotha Programme*, pp. 29-30. Already in *Die Deutsche Ideologie* Marx and Engels declare that it is one of the principles of communism to insist that differences in brains do not constitute differences of stomach and physical needs, and that a difference in occupation "gives no basis for inequality, for *privilege* in possession and enjoyment." *Op. cit.*, p. 526. Italics not mine.

society will inscribe on its banner: "'From each according to his capacity, to each according to his need.'"[34] This principle of distribution would present no difficulties only if all conceivable goods were produced in such abundance as to stand ready to satisfy every "need" fancied by any one; or if "needs" refer to a minimum of basic requirements supplied in enormous volume. Marx's allusion to "increased" productive forces and wealth flowing "more freely" hardly suggests such a profusion of goods.

That he is apt to associate needs for individual development with production short of superabundant is seen in a paragraph in *Capital*, Volume III. He assumes a communal society barely emerging from capitalism, in which wages come out of the producer's product and consumption is freed from capitalist "limitations" in that it is "extended" to the volume "permitted, on the one hand, by existing productivity of society . . . and, on the other hand, required by the full development of his individuality."[35] The "full development" of the individual is a big order: it postulates production of munificent dimensions, and yet the context suggests no such happy state.

In general, such a theory of wages or distribution, so long as goods are not free, takes us far away from the idea of coördinating economic activity as commonly discussed in economics. If wages are not brought in accord (in the Marxian scheme) with value and are allowed to fluctuate for a given worker with marriage and divorce, with births and deaths in his family, and with the imponderable needs of his personal development, the manager of a communist plant—when he is not fishing or criticizing—is hardly left with a meaningful guide for the substitution of one factor for another in seeking the best combination of resources, or for the optimum scale of production. Cost of production, as a measure of disutility or as a determinant of price, loses meaning; so does the equilibrium of supply and demand.

Where are we? If Marx had indicated in all the passages dealing with the allocation of resources which stage of the future society he had in mind, the socialist or the communist stage, the path to a conclusion would be easier. Instead, with the lone exception of his observations on the Gotha program, he refers in such passages to a communal society generally, without specifying the stage of its development; and we confront a maze of contradictory pronouncements.

We must rely therefore on general considerations to guide us. We know that he harbors an acute dislike of vestiges of capitalism in

[34] *Critique of the Gotha Programme*, p. 31. The translation has been slightly revised: see the translation in the Appendix of this same work, p. 109.

[35] *Capital*, Vol. III, p. 1021.

the new order, especially where principles of human relations are concerned; that despite his competent knowledge of the equilibrating effects of price he is not well disposed to the functioning of supply and demand and the decisions of the market, stressing instead the superiority of social planning; and that he is a firm advocate of the relativity of distribution, and what we should call justice, to the prevailing base of productive organization. On this basis one may venture the following interpretation of Marx's position. For a period of time after the fall of capitalism, value will endure as a criterion of the distribution of resources, but as soon as possible, even before the arrival of the higher stage of communism, other criteria, not defined by him, should be elaborated. As for present Soviet Russia, it may be remarked parenthetically that, in view of the fact that her revolution came long before capitalism and its productive forces ran their full course, Marx would probably hold that the reign of value and correlative principles may prevail longer than in a society which abandoned capitalism after its maturest development.

Integral to the problem of the ideal allocation of resources is the question of interest. Nowhere in Marx's writings is there mention that interest can be a guide in the use of resources for making consumption goods or capital goods, or in balancing present and future enjoyments. With reference to timber growing in a communist society, he says that the question is "simply how much land the community can spare . . . for forestry."[36] Under capitalism, he observes, the upsurge of economic activity associated with railway building may be accompanied by a crash when activity subsides with the completion of the project. This disturbance cannot occur in a communistic régime, where it is "simply" a matter of calculating how much labor, means of production, and subsistence society "can utilize without injury" for undertakings demanding a long period of construction.[37] In a communist economy annual deductions will be made from the total product for the expansion of industry, but the guide to the magnitudes of resources assigned for this additional capital is vaguely referred to as "social need." In one place he mentions that the deduction for this purpose as well as for replacement and insurance against natural mishaps "can be determined by existing means and forces and partly through the calculation of probabilities."[38] What he means by "existing means and forces" is obscure. That he does not imply interest is evident from the fact that he denies its very existence in a communist economy.

[36] *Ibid.*, Vol. II, p. 278.
[37] *Ibid.*, p. 361.
[38] *Critique of the Gotha Programme*, p. 27.

Marx sees no valid reason for interest as a category in distribution under capitalism or communism. Senior is ridiculed for perceiving abstinence in capital; and Adam Müller is dismissed sarcastically for suggesting that interest is payment for time.[39] To term interest the price of capital is to use "an irrational expression," because capital, even in the form of goods, represents a "sum of values" measured by price; and the phrase "price of capital" accordingly refers to price apart from the price embodied in the capital—"an absurd contradiction."[40] Far from functioning as a unique factor of production, as in orthodox economics, capital is to Marx the broad symbol of a comprehensive social phenomenon in a definite historical period. It symbolizes "command over the labor of others"; it is a certificate sanctioning the levy of tribute. Capital does not represent savings, it stands for robbery. If the workers were in possession of all the means of production, the concept of capital would disappear together with the phenomenon of interest, profit and rent.[41]

Interest owes its existence to the fact that there are borrowers and lenders of funds; that is, under capitalism, the industrial capitalists and the money capitalists are not the same individuals. The use of money helps to generalize the rate of interest; but even in the absence of money interest would endure. Only, "If there were no money at all, there would certainly be no general rate of interest."[42] He emphasizes, too, that "If all capital were in the hands of the individual

[39] *Capital,* Vol. I, p. 654; Vol. III, p. 420.

[40] *Ibid.,* Vol. III, p. 417. However, he himself uses the expression; see *ibid.,* pp. 430-31, 433.

[41] *Ibid.,* pp. 418-19, 207, 597. It is easy to get the impression that Marx is dealing only with the money-rate, in the short-term money market. However, while in certain chapters Marx deals exclusively with this rate of interest, he also has in mind the long-run rate in his discussion as a whole. In fact, his treatment embraces all kinds of borrowing and lending. In chapter 21, where he develops the essentials of his theory of interest, and in chapter 24 he gives emphasis to the idea of money lending as cloaking the underlying aggregate of capital goods which epitomizes the social relations of exploitation, providing the surplus-value out of which interest is paid. In chapter 23 he stresses the distinction between capital goods as functioning and exploiting in the reproduction process and the loanable money as mere ownership. Too, there are corroborating brief statements throughout the discussion. For instance, his reference to the retired wealthy people living on interest and commanding part of the supply of loanable money obviously refers to long-term lending (pp. 425, 599). To calculate the average rate of interest, it is necessary to compound the rate which fluctuates through the business cycle and "the rate of interest in such investments as require loans of capital for a long time" (p. 426). The supply of loan-capital would be identical, he says, with the supply of the "elements of production for the industrial capitalist" if, instead of possessing money, "the lending capitalists were in possession of machinery, raw materials, etc." which they would lend to the industrial capitalists (pp. 609-10). For his ideas on interest before capitalism, see chapter 36. All the references in this note are to the third volume of *Capital.*

[42] *Ibid.,* pp. 495, 605.

capitalists, there would be no interest and no rate of interest," inasmuch as borrowing would cease.[43] Surplus-value arises from the private ownership of the means of production, interest from the ownership of loanable funds. The employer exacts a tribute for the use of the former, the money lender for the use of the latter. In both instances the claim is based on ownership, but Marx sees a difference in the implications.[44] Were interest to vanish, surplus-value would not diminish and profits (in the strict sense) would rise correspondingly. Preëminently a property attribute, interest will be extinct under communism alike as an entity and as a habit of thought.

It is not surprising, therefore, to learn that in Marx's organon there is no determinant of the rate of interest and no "natural" rate of interest. Interest occupies a position at variance with that of price, wages, profits or rent. These latter are governed by laws which set long-run limits to their magnitudes. The fluctuations of the supply of and the demand for commodities regulate the deviations of their price from the norm. When supply and demand are in equilibrium, "they cease to explain anything," Marx asserts; and it is then that the underlying determinant of value comes to expression—the immanent criterion of socially necessary labor or "the price of production" of the revised version. The same with wages. The oscillations of the market price of labor-power play around the gravitational focus, the value of labor-power as embodied in the goods constituting the customary standard of living. Further, in the apportionment of wages and profits (in the full sense of surplus-value) there is the inherent principle, according to Marx, of arriving at unpaid labor by deducting from the value of, say, the day's product the value of labor-power for the day. Similarly the dimensions of rent are validated by distinctive considerations governing its nature.[45]

Not so with interest. When the supply of loanable money,[46] offered by banks, temporarily unemployed funds of business men, or private savings, is in balance with the demand for short-term means of payment or purchase,[47] or for long-run investments, there is no determinant of the rate of interest innate in the necessities of the process of production. At times it can be high enough to absorb all profit, and it may fall "to any depth." It "becomes a matter of arbitrary and lawless estimation"; "its determination is a matter of accident, purely em-

[43] *Ibid.*, pp. 443, 445, 435.

[44] *Ibid.*, pp. 437-48.

[45] *Ibid.*, pp. 223, 419, 428, 431, 439, 741.

[46] *Ibid.*, pp. 589, 594-96.

[47] *Ibid.*, pp. 601-05.

pirical." In what proportions the lending and investing capitalists divide the surplus-value (aside from rent) is governed by the arbitrary opinion of borrower and lender, but principally "directly and indirectly . . . by the proportion between supply and demand," with the sanction of "custom and legal tradition" as a self-asserting background, and with the average rate of pure profit as a prominent influence.[48]

[48] *Ibid.*, pp. 419-23, 426-32, 601.

THE ECONOMICS OF MINIMUM WAGE LEGISLATION

By George J. Stigler*

The minimum wage provisions of the Fair Labor Standards act of 1938 have been repealed by inflation. Many voices are now taking up the cry for a higher minimum, say, of 60 to 75 cents per hour.

Economists have not been very outspoken on this type of legislation. It is my fundamental thesis that they can and should be outspoken, and singularly agreed. The popular objective of minimum wage legislation—the elimination of extreme poverty—is not seriously debatable. The important questions are rather (1) Does such legislation diminish poverty? (2) Are there efficient alternatives? The answers are, if I am not mistaken, unusually definite for questions of economic policy. If this is so, these answers should be given.

Some readers will probably know my answers already ("no" and "yes," respectively); it is distressing how often one can guess the answer given to an economic question merely by knowing who asks it. But my personal answers are unimportant; the arguments on which they rest, which are important, will be presented under four heads:

1. Effects of a legal minimum wage on the allocation of resources.
2. Effects on aggregate employment.
3. Effects on family income.
4. Alternative policies to combat poverty.

1. *The Allocation of Resources*

The effects of minimum wages may in principle differ between industries in which employers do and do not have control over the wage rates they pay for labor of given skill and application. The two possibilities will be discussed in turn.

Competitive Wage Determination

Each worker receives the value of his marginal product under competition. If a minimum wage is effective, it must therefore have one of two effects: first, workers whose services are worth less than the minimum wage are discharged (and thus forced into unregulated fields of employment, or into unemployment or retirement from the labor force); or, second, the productivity of low-efficiency workers is increased.

The former result, discharge of less efficient workers, will be larger the more the value of their services falls short of the legal minimum, the more elastic the demand for the product, and the greater the possibility of substituting other productive services (including efficient labor) for the inefficient workers' services. The discharged workers will, at best, move to unregulated

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jobs where they will secure lower returns. Unless inefficient workers' productivity rises, therefore, the minimum wage reduces aggregate output, perhaps raises the earnings of those previously a trifle below the minimum, and reduces the earnings of those substantially below the minimum. These are undoubtedly the main allocational effects of a minimum wage in a competitive industry.

The second and offsetting result, the increase of labor productivity, might come about in one of two ways: the laborers may work harder; or the entrepreneurs may use different production techniques. The threat of unemployment may force the inefficient laborers to work harder (the inducement of higher earnings had previously been available, and failed), but this is not very probable. These workers were already driven by the sharp spurs of poverty, and for many the intensity of effort must be increased beyond hope (up to 50 or more per cent) to avoid discharge.

The introduction of new techniques by the entrepreneurs is the more common source of increased labor productivity. Here again there are two possibilities.

First, techniques which were previously unprofitable are now rendered profitable by the increased cost of labor. Costs of production rise because of the minimum wage, but they rise by less than they would if other resources could not be substituted for the labor. Employment will fall for two reasons: output falls; and a given output is secured with less labor. Commonly the new techniques require different (and hence superior) labor, so many inefficient workers are discharged. This process is only a spelling-out of the main competitive effect.

Second, entrepreneurs may be shocked out of lethargy to adopt techniques which were previously profitable or to discover new techniques. This "shock" theory is at present lacking in empirical evidence but not in popularity.

There are several reasons for believing that the "shock" theory is particularly inappropriate to the industries paying low wages. All of the large manufacturing industry categories which in 1939 paid relatively low wages (measured by the payroll of wage-earners divided by their average number) are listed in Table I. A study of this table suggests two generalizations: (1) the low-wage industries are competitive, and (2) the ratio of wages to total-processing-cost-plus-profit is higher than in high-wage industries. The competitive nature of these industries argues that the entrepreneurs are not easy-going traditionalists: vigorous competition in national markets does not attract or tolerate such men. The relatively high labor costs reveal that inducements to wage-economy are already strong. These considerations both work strongly against the shock theory in low-wage manufacturing industries in 1939.[1] Since these industries were on the whole much less affected by the

[1] The current extensive and confident uses made of labor productivity indexes seem to me inappropiate to their ambiguity and inaccuracy. For those who are less skeptical, I may add that for the period 1929 to 1937, output per worker can be approximated for 9 of the industries in Table I (using data from S. Fabricant's *Employment in Manufacturing*, 1899-1939 [New York, Nat. Bur. of Econ. Research, 1942]). In 6 of the 9 industries the increase in labor productivity equalled or exceeded that of all manufacturing.

war than other manufacturing industries, they will probably be present in the post-war list of low-wage industries. The low-wage industries in trade and services display the same characteristics and support the same adverse conclusion with respect to the shock theory.[2]

TABLE I.—EMPLOYMENT, AVERAGE ANNUAL EARNINGS OF FULL-TIME WAGE-EARNERS, AND PERCENTAGE WAGES FORM OF VALUE-ADDED, IN LOW-WAGE MANUFACTURING INDUSTRIES, 1939

Industry	Employment	Average Earnings	Wages as Percent of Value Added
Men's and boys' furnishings	166,945	$632	52.2
Canned and preserved foods	134,471	660	28.0
Cigars	50,897	673	42.0
Cotton manufactures	409,317	715	51.1
Fertilizer	18,744	730	24.0
Wood containers	45,070	735	47.2
Women's accessories	58,952	740	41.3
Misc. fabricated textiles	49,242	746	36.2
Misc. apparel	38,288	769	45.5
Rayon and silk manufactures	119,821	779	54.4
Animal and vegetable oils	21,678	781	25.1
Costume jewelry, etc.	25,256	782	43.5
Sawmills, etc.	265,185	810	52.0
Leather products	280,411	847	50.9
All Manufacturing		1,153	36.8

Source: *Census of Manufactures, 1939.*

Employer Wage Determination

If an employer has a significant degree of control over the wage rate he pays for a given quality of labor, a skillfully-set minimum wage may increase his employment and wage rate and, because the wage is brought closer to the value of the marginal product, at the same time increase aggregate output. The effect may be elucidated with the hypothetical data in Table II. If the entrepreneur is left alone, he will set a wage of $20 and employ 50 men; a minimum wage of $24 will increase employment to 70 men.

This arithmetic is quite valid, but it is not very relevant to the question of a national minimum wage. The minimum wage which achieves these desirable ends has several requisites:

1. It must be chosen correctly: too high a wage (over $28 in our example) will decrease employment. The accounting records describe, very imperfectly, existing employment and wages; the optimum minimum wage can be set only if the demand and supply schedules are known over a considerable range. At present there is no tolerably accurate method

[2] We should perhaps also notice that, even if the shock theory were of general applicability, the maintenance or increase of employment would require also (1) that demand be elastic, and (2) low-efficiency workers continue to be used with the improved techniques.

of deriving these schedules, and one is entitled to doubt that a legislative mandate is all that is necessary to bring forth such a method.

2. The optimum wage varies with occupation (and, within an occupation, with the quality of worker).
3. The optimum wage varies among firms (and plants).
4. The optimum wage varies, often rapidly, through time.

TABLE II.—HYPOTHETICAL DATA ILLUSTRATING EMPLOYER WAGE DETERMINATION

Number of Workers	Wage Rate	Marginal Cost of a Worker	Value of the Marginal Product[a]
10	$12		$36
20	14	$16	34
30	16	20	32
40	18	24	30
50	20	28	28
60	22	32	26
70	24	36	24

[a] Or marginal value product, if this is less.

A uniform national minimum wage, infrequently changed, is wholly unsuited to these diversities of conditions.[3]

We may sum up: the legal minimum wage will reduce aggregate output, and it will decrease the earnings of workers who had previously been receiving materially less than the minimum.

2. *Aggregate Employment*

Although no precise estimate of the effects of a minimum wage upon aggregate employment is possible, we may nevertheless form some notion of the direction of these effects. The higher the minimum wage, the greater will be the number of covered workers who are discharged. The current proposals would probably affect a twentieth to a tenth of all covered workers, so possibly several hundred thousand workers would be discharged. Whatever the number (which no one knows), the direct unemployment is substantial and certain; and it fairly establishes the presumption that the net effects of the minimum wage on aggregate employment are adverse.

This presumption is strengthened by the existing state of aggregate money demand. There is no prospective inadequacy of money demand in the next year or two—indeed, the danger is that it is excessive. If the minimum wage were to increase the relative share of wage-earners and, hence, the propensity to consume—which requires the uncertain assumption that the demand for inefficient labor is inelastic—the increment of consumer demand will be

[3] One can go much farther: even administratively established minima, varying with firm and time, would be impossibly difficult to devise and revise, and their effects on private investment would be extremely adverse.

unnecessary, and perhaps unwelcome.[4] (Conversely, the direct unemployment resulting from the wage law would diminish faster in a period of high employment.)

It is sufficient for the present argument that no large increase in employment will be induced by the legislation. Actually, there is a presumption that a minimum wage will have adverse effects upon aggregate employment.

3. *Wage Rates and Family Income*

The manipulation of individual prices is neither an efficient nor an equitable device for changing the distribution of personal income. This is a well-known dictum that has received much documentation in analyses of our agricultural programs. The relevance of the dictum to minimum wage legislation is easily demonstrated.

One cannot expect a close relationship between the level of hourly wage rates and the amount of family income. Yet family income and needs are the fundamental factors in the problem of poverty. The major sources of discrepancy may be catalogued.

First, the hourly rates are effective only for those who receive them, and it was shown in Section 1 that the least productive workers are forced into uncovered occupations or into unemployment.

Second, hourly earnings and annual earnings are not closely related. The seasonality of the industry, the extent of overtime, the amount of absenteeism, and the shift of workers among industries, are obvious examples of factors which reduce the correlation between hourly earnings and annual earnings.

Third, family earnings are the sum of earnings of all workers in the family, and the dispersion of number of workers is considerable. The

TABLE III.—PERCENTAGE DISTRIBUTION OF WAGE-EARNER FAMILIES BY NUMBER OF EARNERS: MINNESOTA, 1939

Family Income	One Earner	Two Earners	Three Earners	Four or more Earners
$250–$500	94.5	4.6	.7	.2
500– 750	92.4	7.1	.3	.2
750–1000	86.7	10.7	1.5	1.1
1000–1250	88.5	10.4	1.1	.1

Source: *Minnesota Incomes, 1938–39*, Vol. II (St. Paul, Minnesota Resources Commission, 1942), p. 152.

summary in Table III for low income wage-earner families in Minnesota in 1939, shows that in the $250-$500 income class one-twentieth of the families had more than one earner and in the higher income classes the fraction rose to one-eighth.

[4] This line of argument implies that a minimum wage is more likely to have beneficial effects in depression (if the demand for the relevant labor is inelastic), but it does not imply that the beneficial effects are likely.

Fourth, although wages are, of course, the chief component of the income of low-wage families, they are by no means the only component. It is indicated in Table IV that a tenth of the wage-earner families had cash investment income, a quarter had entrepreneural income, and a quarter owned their homes.

TABLE IV.—COMPOSITION OF INCOME OF WAGE-EARNER FAMILIES: MINNESOTA, 1939

Income Class	Total	Wages and Salaries	Income		Investment Income	
			Entre-preneural Income	Room and Board	Cash	Total
1. *Percentage of Families Receiving Income*						
$250–$500		99.9	26.5	1.3	12.3	28.2
500– 750		100.0	25.2	1.7	10.1	24.2
750–1000		100.0	21.4	2.7	9.4	31.2
1000–1250		100.0	18.4	3.0	10.4	22.8
2. *Average Amount*						
250– 500	$ 387	$ 308		−$ 9	$64	
500– 750	631	560		62	82	
750–1000	865	766		53	82	
1000–1250	1124	1032		91	96	

Source: *Minnesota Incomes, 1938–39*, Vol. I (St. Paul, Minnesota Resources Commission, 1942), p. 42; Vol. II, p. 200.

All of these steps lead us only to family income; the leap must still be made to family needs. It is argued in the next section that family composition is the best criterion of need, and whether this be accepted or not, it is clearly an important criterion. The great variation in family size among wage-earner families is strongly emphasized by the illustrative data in Table V; an income adequate for one size is either too large or too small for at least half the families in that income class.

The connection between hourly wages and the standard of living of the family is thus remote and fuzzy. Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size, and many other factors, it will be an inept device for combatting poverty even for those who succeed in retaining employment. And if the minimum wages varies with all of these factors, it will be an insane device.

4. *The Problem of Poverty*

Minimum wage legislation commonly has two stated objectives: the reduction of employer control of wages; and the abolition of poverty. The former and much lesser purpose may better be achieved by removing the condition of labor immobility which gives rise to employer control. Labor immobility would be reduced substantially by public provision of comprehensive information on employment conditions in various areas and industries. The immobility would be further reduced by supplying vocational training and

loans to cover moving costs. But employer wage control is not the important problem; let us turn to the elimination of poverty.

Incomes of the poor cannot be increased without impairing incentives. Skillful policies will, for a given increase in the incomes of the poor, impair incentives less than clumsy policies. But the more completely poverty is eliminated, given the level of intelligence with which this is done, the greater will be the impairment of incentives. This is a price we must pay, just as impairment of incentives is a price we have willingly paid to reduce the inequality of income by progressive income and estate taxes. Society must determine, through its legislators, what minimum income (or addition to income) should be guaranteed to each family. We shall assume that this difficult decision has been made.

TABLE V.—PERCENTAGE DISTRIBUTION OF WAGE-EARNER FAMILIES BY NUMBER OF PERSONS: CHICAGO AND ATLANTA, 1936

Income Class	Number of Persons in Family			
	2	3 or 4	5 or 6	7 or more
1. *Chicago*				
$ 0–$250	39.6	43.6	14.9	2.0
250– 500	35.3	45.8	17.6	1.3
500– 750	31.8	53.7	13.0	1.6
750–1000	29.0	56.5	12.4	2.1
2. *Atlanta*				
0– 250	30.	55.	15.	0.
250– 500	20.1	48.1	16.5	5.3
500– 750	22.6	46.9	24.4	6.2
750–1000	21.6	48.1	23.5	6.7

Sources: *Family Income in Chicago, 1935–36* (Bur. of Lab. Stat. bull. no. 642 [Washington, Supt. Docs., 194]),Vol. I, p. 117; *Family Income in the Southeastern Region* (Bur. of Lab. Stat., bull. no. 647 [Washington, Supt. Docs., 194]), Vol. I, p. 148.

One principle is fundamental in the amelioration of poverty: those who are equally in need should be helped equally. If this principle is to be achieved, there must be an objective criterion of need; equality can never be achieved when many cases are judged (by many people) "on their merits." We are driven almost inexorably to family size and composition as this criterion of need. It is obviously imperfect; the sickly require more medical care than the healthy.[5] But it is vastly easier to accord special treatment to certain families for a few items like medical care than to accord special treatment to every family for the sum of all items of expenditure.

It is a corollary of this position that assistance should not be based upon occupation. The poor farmer, the poor shopkeeper, and the poor miner are

[5] One could argue that rural families should receive less help, to offset the lower prices at which food and housing are procured. The group is of sufficient size and perhaps sufficiently identifiable to justify separate treatment. But there are grounds other than political expediency for rejecting this proposal.

on an equal footing. There may be administrative justification (although I doubt it) for treating the farmer separately from the urban dweller, but there is no defense in equity for helping the one and neglecting the other. To render the assistance by manipulating prices is in any case objectionable: we help the rich farmer more than the poor, and give widely differing amounts of help to the poor farmer from year to year.

The principle of equity thus involves the granting of assistance to the poor with regard to their need (measured by family composition) but without regard to their occupation. There is a possible choice between grants in kind and in money. The latter commends itself strongly: it gives full play to the enormous variety of tastes and it is administratively much simpler. Yet it raises a problem which will be noticed shortly.

Even if these general observations be accepted, the structure of administration is of grave importance, and I do not pretend to have explored this field. There is great attractiveness in the proposal that we extend the personal income tax to the lowest income brackets with negative rates in these brackets. Such a scheme could achieve equality of treatment with what appears to be a (large) minimum of administrative machinery. If the negative rates are appropriately graduated, we may still retain some measure of incentive for a family to increase its income. We should no doubt encounter many perplexing difficulties in carrying out this plan, but they are problems which could not be avoided, even though they might be ignored, by a less direct attack on poverty.

One final point: We seek to abolish poverty in good part because it leads to undernourishment. In this connection, dietary appraisals show that in any income class, no matter how low, a portion of the families secure adequate diets, and in any income class, as high as the studies go, a portion do not. The proportion of ill-fed, to be sure, declines substantially as income rises, but it does not disappear. We cannot possibly afford to abolish malnutrition, or mal-housing, or mal-education, only by increasing incomes.

Either of two inferences may be drawn. The program of increasing income must be supplemented by a program of education—in diet, in housing, in education! Or the assistance to the poor should be given in kind, expertly chosen. The latter approach is administratively very complex, but quicker and in direct expenditure vastly more economical. These factors affect our choice, but a thought should be given also to the two societies to which they lead.

WAGE DIFFERENCES IN LOCAL LABOR MARKETS

By LLOYD G. REYNOLDS*

The perfect labor market usually assumed in discussions of wages tends toward an equilibrium position in which workers of equal ability working equally hard at identical jobs under uniform conditions would receive equal wage rates. While actual labor markets are obviously far from perfect, one is still inclined to believe that some such tendency toward wage equalization is operative.

It is always somewhat disturbing, therefore, to observe the great variety of rates for apparently comparable jobs which prevails in actual labor markets. The National War Labor Board has during the past several years collected the rates paid by different firms for certain "key occupations" in a large number of industrial areas. Inspection of these data indicates that the highest rate in an area is usually at least 50 per cent and frequently 100 per cent above the lowest rate for workers classified under the same job title.

These differences in rates are of course not necessarily significant for wage theory. Their significance could be determined only by correcting for all the conditions assumed equal in the theoretical problem. First, the workers whose earnings are being compared may not be of equal ability or may not be working equally hard. This could readily account for differences in piece-rate earnings, and even under time rates, inter-firm wage differences might be offset by differences in the level of ability or effort required by various firms. Second, jobs called by the same name may not be the same jobs and the workers doing them may not be interchangeable. Terms such as "machinist," "welder," and even "common laborer" are notoriously unreliable indicators of job content.

Third, even if one could find two jobs requiring performance of exactly the same operations, these jobs might differ in almost numberless other respects. Among these are the extent of "fringe" wage payments—bonuses, paid vacations, paid holidays, pension systems, free medical care, etc.—the shift involved and the shift differential if any, the expected regularity of work, the length of the work day and week, the extent to which the worker is protected against layoffs by seniority or other rules, the opportunity for advancement, physical conditions of work, the congeniality of fellow-workers and supervisors, the quality of personnel management in the company, and the presence or absence of a union. Competition in a perfect labor market is supposed to equalize, not money rates of wages, but the total attractiveness of the same job in different plants. The conclusions of theory could be tested, therefore, only if it were possible to measure the total attractiveness of a

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job by reducing each of the factors enumerated above to a cents-per-hour equivalent and totaling.[1] Comparison of the totals would indicate the presence or absence of what may be termed "true" wage differences, to distinguish them from mere differences in base rates of pay.

Since no study of this sort has ever been made, it is not possible to assert categorically that "true" wage differences exist, still less that they are as large as the apparent differences in base rates.[2] Moreover, in order to be theoretically interesting, wage differences must have persisted sufficiently long for workers to learn about them and have reasonable opportunity to move to the more desirable jobs. This means that measurements must probably be extended over a period of at least a decade.[3]

The writer is of the opinion that "true" wage differences are of significant size in actual labor markets, and that they do not diminish appreciably with the passage of time. Whether this is so, however, can be discovered only by further research. The object here is simply to develop hypotheses capable of explaining the appearance and persistence of wage differences and capable, therefore, of serving as guides to investigation.

I

It is necessary first to distinguish between conditions which might make different firms willing to pay different wage rates, and conditions which would permit the continued payment of different rates. In other words, one must distinguish between *positive* factors operating on the demand side of the market and *permissive* factors operating on the supply side.

It is not difficult to construct conditions of labor supply which would permit the persistence of wage differences. If full employment is assumed, a forward-rising supply-curve of labor may be posited on any of several

[1] A worker makes an implicit calculation of total job attractiveness every time he decides to change or not to change his job. And workers might be able to provide an investigator with rough quantitative estimates of the importance they attach to various job characteristics: 10 years' seniority = 7 cents per hour, pleasant supervisor = 4 cents per hour, and so on. The main analytical difficulty is that some job attributes, notably things like security, would probably be valued very differently by different workers. It would not be legitimate to average out different workers' ratings of the same job to arrive at a score for it; for the fact that different workers react differently toward the same constellation of job characteristics is the important thing.

[2] Charles A. Myers and W. Rupert Maclaurin, after careful observation of a New England industrial community for several years, expressed the opinion that differences in wage rates in this area were not accompanied by offsetting differences in other job characteristics: "The low-wage firms generally did not compensate for their poorer rates by providing better working conditions, welfare plans, or good 'informal relations.'" (*The Movement of Factory Workers* [New York, Wiley, 1944], p. 73.)

[3] Strictly speaking, even a demonstration that substantial wage differences had persisted unchanged for ten, twenty, or more years would not refute the possibility that a tendency toward wage equalization had been operative *at each moment of time* within that period. The market might at each moment of time be tending toward an equilibrium position of equal wage rates; yet because of the continual intervention of dynamic changes, involving changes also in the appropriate equilibrium position, the observed wage differences might not decrease and might even increase.

grounds,[4] of which the most realistic are probably (a) differences in workers' preference for specified combinations of wages and conditions, analogous to differences in consumer preference; (b) attachment of workers to a familiar workplace and work-group; (c) attachment of workers to a familiar place of residence. These last two factors may be considered as operating independently of the intrinsic attractiveness of the job, and would produce a forward-rising supply curve even if all jobs in the market were equally attractive. If all firms in the market have sloped supply curves, there is obviously no reason why different wage rates should not continue indefinitely.

A different and in some ways more interesting model may be constructed under conditions of unemployment. Suppose that layoffs have been made in such a way that a considerable proportion of the unemployed are more efficient than the least efficient of the employed. Suppose further that any firm which wishes to expand its work force will hire unemployed workers rather than workers already employed by other firms. Suppose finally that the alternative to employment is relief at a level below the workers' conception of a tolerable wage.

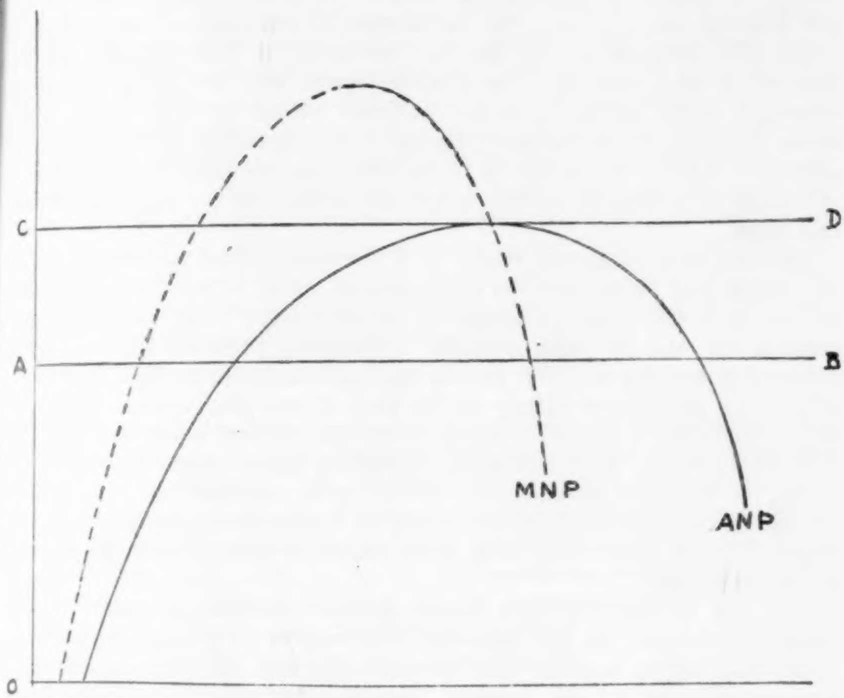
Under these conditions the supply curve of labor to each firm would look somewhat as follows: starting from a point representing the firm's present wage rate and employment, the curve would run horizontally to the right for at least a considerable distance and possibly all the way to the point of full employment. Viewed from the other direction, it would run vertically downward to a level which would provoke the workers to quit work in a body, and would then become horizontal. This level will be referred to hereafter as the "minimum wage" of the firm. In this sort of labor market each firm would clearly have wide latitude in choosing a wage rate and wage differences, once established, could persist indefinitely.

While these supply conditions will *permit* wage differences to exist, the conditions which will actually *produce* wage differences must be sought on the demand side of the labor market. The remainder of the paper will be devoted to exploring these demand conditions. In order, first, to isolate the effect of different types of competitive situation in product markets, let us assume (a) that each firm knows the location of its "minimum wage," and that the minima of all firms are the same; (b) that the supply of factors other than labor is perfectly elastic to each firm; (c) that the local labor market under consideration is completely isolated from all other labor markets. The effect of removing these restrictions will be considered in the next section; it is obvious that the result will in each case be to render wage differences more likely. We shall assume throughout that union organization is absent. It will also be assumed that only one occupation exists in the market and that differences in individual efficiency either do not exist or are taken into account through the use of efficiency units.

The average and marginal net value productivity of labor for any firm in

[4] This does not mean that only a rising supply curve can be derived under full employment; horizontal, vertical, "kinked," and zigzag curves may also be derived from various combinations of assumptions. The argument of this and the two following paragraphs is much more fully developed in my article on "The Supply of Labor to the Firm," *Quart. Jour. Econ.*, Vol. LX, No. 3 (May, 1946).

the market may be represented, as in the figure below, by curves of the type *ANP* and *MNP*, while *OA* represents the minimum wage. It is possible to introduce discontinuities into the marginal productivity curve by assuming similar discontinuities in the firm's marginal revenue curve.[5] The results which can be obtained in this way, however, are probably of rather short-run



significance, and results derived from a continuous marginal productivity curve can be taken as approximately correct over considerable periods of time.

It is clear that the figure does not represent an equilibrium position for any firm in an industry to which entrance is open, whether the situation is one of pure competition, monopolistic competition, or oligopoly. If new firms can enter at wage rate *OA*, then *ANP* and *MNP* will be forced down

[5] For example, vertical discontinuities in *MNP* may be obtained by assuming that prices are not varied continuously with changes in cost—for example, that prices are never changed by less than 5 per cent, or that prices are set only in certain "brackets" or "price lines," or that prices are changed only at fixed intervals of time. Horizontal discontinuities can be introduced by assuming that the demand curve for the product is itself discontinuous and that marginal cost is constant over the relevant range; if a horizontal section of the marginal productivity curve happened to coincide with a horizontal supply curve of labor, the equilibrium employment of the firm would be indeterminate over this range. These complications will be ignored here.

until AB becomes tangent to ANP. Thus even if a firm had established a wage rate above OA while profits in the industry were temporarily high, it would not be able to maintain this wage rate but would be forced back to OA.[6]

If, however, the firm in question is a monopoly, in the technical sense, it will be free to pay any wage rate between OA and OC. As the wage rises toward OC output will decline, the price of the product will rise and profits will diminish. At each wage rate the monopolist can choose a rate of output which will maximize profits, but the maximum of these maxima will be obtained at wage rate OA.[7] The possible reasons why the management of a monopoly might choose to forego maximum profits and pay a wage rate above OA need not be discussed, though some suggestions on this point are offered in Section III below. It is sufficient here to indicate the existence of a range of managerial discretion and the stability of any wage rate within this range.

The preceding paragraph relates to a monopoly whose prices and profits are limited only by the position of its demand curve. A public utility limited by law to a fixed rate of return on its investment could pay any wage between OA and OC with complete indifference, provided that the costs deducted in arriving at MNP include the legal maximum profit. A monopoly selling to a government agency on the basis of cost plus a fixed fee or cost plus a fixed rate of return on capital could also, without affecting its profits, raise wages to any level which the purchasing agency could be induced to accept. If the price included cost plus a profit calculated as a fixed percentage of cost, the firm's profits would be increased with each increase in wages. Thus in these cases there is no reason to expect OA to be selected as the wage rate.

The case of oligopoly with closed entrance is somewhat more complicated. If producers do not coöperate with respect to product prices, then prices must fall to equality with average cost, and the wage rate of each producer must be OA. If, however, there is price coöperation—which may mean anything from a close-knit cartel agreement to simply taking account of the probable reaction of other firms in the industry to a price change—the resulting price, demand conditions permitting, will be somewhat above average cost. Each firm will then have something of the monopolist's latitude with respect to wage rates: it can pay anything between OA and the wage which would just reduce its profits to normal. The freedom of each producer is qualified, however, by the necessity of maintaining cordial relations with

[6] A wage higher than OA can be established permanently if, while the industry is out of equilibrium and profits are above normal, a union enters the industry and enforces a wage greater than OA from all firms, at the same time preventing any new firm from entering the industry at a lower wage. But this amounts to saying that the minimum wage OA has now been raised by trade union action and does not constitute an exception to the statement just made.

[7] If profits were introduced into the figure as a third dimension, MNP would resemble the backbone of a mountain range sloping downward on either side and also running downward as one goes from AB toward CD. MNP is a locus of profit maxima, and the greatest of these maxima will occur at its intersection with AB.

other producers. If most firms in the industry choose to pay wages considerably above *OA*, then a firm which pays only *OA* may be suspected of undermining the price agreement and pressure may be put on it to come up to the general industry level. One would, therefore, expect a certain clustering of wage rates rather than an even distribution over the possible range. The oligopolists may even agree to pay the same wage as a means of buttressing the price agreement. If they seek also to maximize their profits, the agreed wage will be *OA;* but other motives may dictate selection of a higher wage.

Under the conditions assumed, then, the wages of firms operating under conditions of pure competition, monopolistic competition, or oligopoly with either free entrance or uncontrolled prices, will tend toward equality at *OA*. Monopolies and members of oligopoly groups with closed entrance and controlled prices will also pay *OA* if they wish to maximize profits; if they are willing to accept a lower level of profits, however, they can choose to pay wages above *OA* by amounts varying with the position of their demand curves. Firms whose prices are set by government acting either as purchaser or regulator are still more likely to pay wages above *OA*. Thus, in any labor market containing firms of these latter types, one would expect to find some dispersion of wage rates for comparable work.

II

Let us now consider the consequences of removing some of the assumptions made in the previous section. Suppose, first, that a firm in a competitive industry is able, because of imperfections in the market for a factor other than labor, to purchase that factor more cheaply than its competitors.[8] Suppose further that this advantage is not open to would-be entrants to the industry. Then part or all of the surplus income accruing to the advantageously-situated firm may, at the discretion of management, be transferred to labor through higher wages. Thus even firms subject to pure or monopolistic competition in product markets may have something of the monopolist's latitude with respect to wage rates.

Second, suppose that the labor market under consideration is only one of many, and that these markets have differing "minimum wages." This implies that movements of labor and capital are not sufficiently rapid to eliminate inter-area wage differences within the period of time taken into account. Now suppose the firms in a competitive industry are distributed among these markets in such a way that their minimum wages form a statistical array resembling the so-called "bulk-line cost curve." Then the price of the product will tend to settle at a level sufficient to cover the minimum wage of a firm at, say, the ninth quartile of the array. If costs other than wages are uniform throughout the industry, all firms below the ninth quartile will have some latitude with respect to wage rates. Each of these firms can pay anything between the minimum wage in its own area and the

[8] This may mean purchase of a higher quality of a factor at the standard price rather than payment of a lower price for the same quality. It seems likely, for example, that especially able managers will receive less than their full contribution to production, particularly in a situation in which individual income-tax rates are high.

minimum wage of the "marginal" firm; the lower the minium wage in a particular area, the wider the range of discretion of firms in that area. This situation is stable, of course, only if there are obstacles to new firms entering the industry in the areas with the lowest minimum wages; otherwise, the industry would become concentrated increasingly in those areas, and dispersion of wage rates arising from geographical dispersion of the industry would disappear. If one brings into the picture not one industry but a large number of industries, each with a somewhat different geographical distribution, then it is clear that each labor market in the economy may have its own pattern of inter-firm wage differences, which will not be reproduced exactly in any other market.

The individual firm is caught between the area and the industry. Conditions within the area, particularly the wage levels of other firms, determine the minimum which it must pay. The wage rates of other firms in the industry, *ceteris paribus,* will determine the maximum which it can afford to pay. If the latter figure is less than the former, the firm will in time be forced out of operation; but if it is greater, the firm can be guided by the wage level either of the industry or the area. Developments in the industry may lead the firm to make wage changes independently of any developments in the local labor market. Indeed, for firms in competitive industries which are geographically dispersed, it appears that the industry is normally the dynamic influence in bringing about wage changes, while the influence of the local labor market is merely passive or permissive.

Third, let us admit the possibility that different firms in the same labor market may have different minimum wages. One reason for this is that wage differences which have persisted for some time become customary and workers tend to presume that they should continue. A wage rate which would be accepted if paid by a traditionally low-wage firm may provoke a revolt if adopted suddenly by a high-wage firm. Each firm thus has its own minimum wage which is related to its present and previous actual wage rates. These minima lie one above the other like steps on an escalator. The relative ranking of the various firms doubtless changes gradually over long periods of time, but at any one time it is rather firmly fixed in the minds of both workers and employers.[9] Any attempt by one firm to drop its wage rate below the minimum expected of it, or to retain the same wage rate when the wage escalator is moving upward, will cause serious labor unrest.

This circumstance helps to explain not only why wage differences persist but also why they may widen with the passage of time. Once a set of differentials has become customary, a management gains no credit with its workers by merely doing what is expected of it. It can add fresh luster to its reputation for generosity only by *increasing* its wage differential over other firms. But this new differential will in time become customary, and so on.

[9] Witness the large number of cases in which a firm requests the War Labor Board to approve a wage increase in order to enable it to maintain or restore its "historical position" in the area wage structure. Such requests are uniformly refused, and must be refused under the wage stabilization policy. There can be no doubt, however, that this refusal frequently works severe hardship on the firms involved.

The differentials presently existing in most United States labor markets are clearly too large to have been attained in one jump, and can only be understood as the outcome of some such historical process. Investigation might reveal a long-run tendency for local wage-structures to open out like the ribs of a fan, the higher-wage firms increasing their advantage in successive jumps, each of which gradually becomes conventionalized.

Under the assumptions of Section I, one would expect to find in any locality a "prevailing rate" of wages, from which only monopolies or quasi-monopolies could deviate. When the three assumptions just discussed are relaxed, however, the likelihood of a "prevailing rate" is removed. There is now no reason why each firm in the market should not have a different wage rate. Moreover, there is no longer any reason to expect a clear relation between a firm's wage level and the type of product market in which it deals. The effect of differing types of product market, while still present, is mingled with the effect of conditions influencing each firm's cost position in its own industry—notably the wage levels of other areas in which rival producers are located, and the cost of factors other than labor to this firm as compared with others. Added to these factors affecting each firm's ability to pay are differences in managerial judgment concerning the wisdom of paying as much as one can. The actual wage structure of an area reflects the composite effect of these influences. The effect of each can be gauged only approximately and only through studies which reach beyond the area concerned to the cost-price structure of each industry represented in it.

With these considerations in mind, it is possible to suggest one or two reasons why a firm may choose to pay a higher wage than it has to at the moment. The firm is likely to be uncertain about the precise location of its wage minimum, particularly under dynamic conditions in which the minimum may change very frequently. If it can afford to do so, it is likely to "play safe" by paying somewhat more than its estimate of the minimum. Different firms may thus be at differing distances above their wage minima because of differences in the accuracy of their estimates and also because of differences in the safety margin which they feel able to afford.

The degree of uncertainty is increased if one takes into account a factor hitherto excluded from the discussion, *viz.*, variations in individual efficiency. A reduction in wage rates will lead to a less than proportionate reduction in wage cost per efficiency unit of labor; for efficiency will fall both through a lowering of the grade of labor which the firm can recruit and through a reduction in the efficiency of those already employed. The wage level which would actually yield minimum cost per efficiency unit could perhaps be determined by successive wage reductions. But since such experimentation is dangerous, it may not be undertaken unless the pressure of competition compels it, and the firm may continue at a level of wage costs somewhat above what is strictly necessary.

A monopoly or a closed oligopoly group may pay more than the minimum wage in order to render the industry less attractive to potential competitors. It has frequently been pointed out that a monopolist may for this reason charge a price below that which would maximize profits. But profits can be

held at a moderate level by paying high wages instead of by charging low prices. Provided potential competitors take the wage level of established firms as an indication of what they would have to pay to secure labor, this technique may be highly effective.

Payment of a relatively high wage may also simplify the problems of personnel management by facilitating recruiting of labor, stabilizing the working force, stimulating efficiency, improving labor coöperation with management, and so on. Maximizing profits is hard work. Some sacrifice of profits in order to make the job of management easier may be perfectly "economic" action from the standpoint of the managers, though not from the standpoint of the owners.

III

The argument has been directed toward explaining the long-run persistence of differences in wage *levels* within a local labor market. But it is also relevant to the problem of how wage *changes* occur and how changes in one labor market are transmitted to others. Under usual assumptions about labor market structure one would expect that, during a cyclical upswing, wages would rise in an area *only* when full employment had been reached. The area would then begin to draw labor from other areas and, as full employment was reached in more and more areas, wage increases would become general throughout the economy. During periods of cyclical decline this process would be thrown into reverse. In either case, local labor markets would be linked together primarily by inter-area movements of labor, and the rapidity with which wage changes were transmitted throughout the system would depend on the rapidity of this movement.

This sort of model, however, does not explain the fact that wage rates frequently rise in an area while heavy unemployment still exists,[10] and that wage impulses are transmitted within and between labor markets much more rapidly than could be explained by actual or even potential movement of labor. These facts can perhaps be more nearly explained by the considerations set forth above. Suppose that the leading firm of a "controlled oligopoly," located in labor market A, raises wages—perhaps as prelude to or aftermath of a price increase. The wage increase is followed by another member of the industry, located in labor market B. This action will raise the estimates which other firms in area B make of their own minimum wage; as demand conditions permit, some of them will make increases to maintain their "historical position" in the wage structure. Thus the whole "escalator" of minimum wages in the area moves upward, carrying actual wage rates along with it. But the firms in area B have competitors in areas C, D, etc., some of whom will be influenced by the wage changes in B, and so on. A sym-

[10] Indeed, statistics of average hourly earnings by industry indicate that wage rates tend to rise first and fall last in industries in which cyclical unemployment is greatest. See the discussion of this point in John T. Dunlop, *Wage Determination Under Trade Unions* (New York, Macmillan, 1944) pp. 130-43. It would be interesting to make a similar analysis on an area basis, but wage statistics are not now organized in such a way as to permit this.

metrical explanation can be offered for the transmission of wage decreases.[11]

Thus, through industry linkages, a wage change in one area may be transmitted rapidly to distant and apparently unrelated areas. This need not involve any actual or even threatened movement of labor between areas. Inter-area movement of labor appears indeed to perform, not its traditional function of equalizing wage rates, but the quite different function of equalizing unemployment ratios in different areas. During recession and depression labor mobility declines greatly and, because of differences in the cyclical variability of different industries, unemployment piles up more rapidly in some areas than in others. As recovery gets under way, movement sets in once more toward areas in which the unemployment ratio is relatively low.[12] But the areas in which unemployment is low are not necessarily those in which wage rates are high.

IV

The wide gap between the accepted models of the labor market and the actual behavior of wage rates and employment has inhibited systematic research in this field. This paper has attempted to advance hypotheses around which the wealth of data available in any local labor market may profitably be organized. It has been suggested that attention should be concentrated primarily on the supply conditions of labor to the individual firm, the characteristics of the product market in which each firm deals and its cost position relative to other firms in its industry, the considerations influencing the exercise of managerial discretion with respect to wage rates, and the way in which changes are transmitted among firms and labor market areas. It is important also to make accurate measurements of wage rates, appropriately defined, and to extend these measurements over as long a period as possible.

[11] The only important difference in the two cases is that the firm initiating a wage decrease is likely to be a member of a competitive industry. Dunlop's observation that "declines in product prices and not unemployment constitute the effective downward pressure on wage structures" (*op. cit.*, p. 146) is entirely consistent with what has been said here.

[12] See on this point the studies of the Oxford Institute for Economic Research, reported in *Oxford Economic Papers*, October, 1938, and September, 1940.

COMMUNICATIONS

Concept and Teaching of Economics

The teaching of economics faces problems of reconversion as perplexing as those of the national economy. During the war, instruction in this field has been partly discontinued, partly shifted to such timely subjects as war mobilization, economic warfare, and demobilization. While the theme of war economy may remain of interest, it cannot possibly serve any longer as the focus of instruction. What is the new focus going to be? Economics will now be taught again to large numbers of students including thousands of returning veterans, mature and critical men. How can it be made intelligible to them and worth their effort?

To relapse into pre-war "normalcy" in economic teaching is as impractical as in most fields of economic policy. There is no satisfactory pre-war norm. The teaching of economics was in an advanced state of crisis when the war began. The dicussion that appeared in the *Review* during recent years brought to the fore a few aspects of the crisis. Is it possible to introduce students to economics through a course in economic principles?[1] If so. what are the principles?[2] Is there a curriculum in economics, or should students be invited to take any course at any time?[3] Has economics lost the character of a unified discipline?[4] If so, could a new discipline be built upon a broad course in contemporary civilization?[5] Why do students "begin their study of economics without a great deal of enthusiasm" and proceeding to lose what little they had, in spite of the significance and topicality of contemporary economic affairs?[6]

Dissatisfaction of teachers and students and the prospect of severe public criticism make it necessary today to examine these questions and to find new

[1] W. W. Hewett, "The Use of Economic Principles in the Teaching of Applied Subjects," *Am. Econ. Rev.*, Vol. XXX, No. 2, Pt. 1 (June, 1940), p. 334. See his references to earlier criticism.

[2] R. W. Harbeson, "The Case for an Introductory Course in Economic Theory," *Am. Econ. Rev.*, Vol. XXXIII, No. 1 (Mar., 1943), pp. 121 *ff*.

[3] M. Bronfenbrenner, "The Introductory Course: Comment," *Am. Econ. Rev.*, Vol. XXXII, No. 3 (Sept., 1942), p. 558.

[4] W. H. Hamilton, "The Institutional Approach to Economic Theory," *Am. Econ. Rev.*, Vol. X, No. 1 (Mar., 1919), suppl., p. 312.

[5] L. M. Hacker, "The Contemporary Civilization Course at Columbia College," and discussion by M. A. Copeland, *Am. Econ. Rev.*, Vol. XXXV, No. 2 (May, 1945), pp. 137 *ff*.

[6] R. Clemence and F. S. Doody: "Modern Economics and the Introductory Course," *Am. Econ. Rev.*, Vol. XXXII, No. 2 (June, 1942), p. 334.

ways of teaching the subject, especially at the introductory level. In this we need not start from scratch. Many good teachers have found ways of by-passing this or that dilemma of teaching, pure "economicism" and value theory, or at least the preoccupation with "static economics" and the state of perfect competition. Moreover, considerable experimentation in new forms of basic instruction has been carried out. For instance, the contemporary civilization course at Columbia, a broad survey course developed over 26 years, may be taken as a real contribution to a reform of economic teaching. On a more modest scale, the basic courses in political economy at Bennington College attempt to solve the problem through intensive study of selected phases of social thought and experience. Other experiments are likely to be in process and should be discussed freely.

In this article, I wish to examine why the introductory course in economic principles tends to be a failure, and to propose its abolition. I suggest that it be replaced by a broad basic course in political economy that acquaints the student with the experiences and the problems of the commonwealth, seen in their historical context from the viewpoints of economics, politics, anthropology, sociology, and philosophy. This course should serve students who wish to specialize in economics as well as those who want to go on in any other science or art. For the first group, I want to sketch a few features of a curriculum in economics.

The Failure of the Economic Principles Course

The strategic part of any curriculum is the introductory course. If this course is successful it stimulates the student's interest, focuses his mind on the relevant and organizes his work. In the frame of liberal education, the purpose of the introductory course is to give the general student an education and the specialist a foundation in the field.

In the past, the usual point of departure for a student in economics was an introductory course built around the principles of economics—that is, elementary economic theory. Often this course was made a prerequisite of specialized studies, in the expectation that it would give the student the unifying point of view and the tools for an understanding of the specialized courses. This expectation was more often deceived than fulfilled. A considerable gap tended to develop between the student's work in economic principles and his specialized studies. Instruction in the latter came to deal with the particular and technical problems of business and public administration without much attention to economic theory, while advanced work in economic theory tended to be formalistic and well-nigh inapplicable to anything happening in the world. No wonder that the student found it most difficult to discover the alleged unity of economic science and the bearing of economic thought on the problems of our time. Instead he often came to see in economics a series of "overlapping unrelated inquiries in which economic principles play an unimportant rôle,"[7] or "a branch of the forensic arts in which any opinion

[7] Hewett, *Am. Econ. Rev.*, Vol. XXX, No. 2, Pt. 1, p. 334.

is as good as any other, and in which acceptance is dependent on oratory and authority."[8]

It makes little difference whether this course in principles is given to the neophyte or preceded by a preliminary superficial survey of economic institutions or history. Nor does it matter much whether it is taught with reference to the choice problems of Robinson Crusoe or the groceries-buying housewife, in the light of the neoclassical system or the Keynesian anti-system. The theory does not coördinate the facts; the making and unmaking of abstractions absorb more energy than they release for the mastering of the material. Whatever the student may get out of this work in the way of logic or mathematics—and I have heard economics courses recommended to students on this ground alone—whatever he may gain in perseverance or ability to use the language of economists, he does not get an education in economics.

Economic Theory and Social Economy

It would not be fair to accuse the student of a lack of intelligence or the specialist of disregard for an existing integrated system of economic thought. There exists no integrated system of specifically economic thought relevant today, that is to say, no consistent body of doctrine capable of acting as the unifying agent of applied studies.

Ever since it appeared as an independent discipline, economic theory concerned itself with the rationale of a self-regulating system of markets (market economy). Such an economy never existed anywhere, however old and well-estabished the institution of specific markets may be. But it is clear that the idea of realizing such a system dominated the western world in the 19th and early 20th centuries and was carried from there to the remote corners of the globe. At times the idea had the features of a crusaders' creed, for instance, in the 1830's in England, and in the 1920's.

The fact that the system was never realized may have led critics and policy makers into errors. Often enough, what appeared as mercantilistic folly to Adam Smith or as collectivistic folly to Herbert Spencer or the "orthodox" of the 1920's were perfectly rational actions in the absence of the balancing mechanism of a full-fledged market economy. Nevertheless, as long as the great experiment dominated the mind of western man, it was meaningful to expound pure economic theory. The value and equilibrium doctrines of Ricardo and Marx, Walras and Marshall, Hayek and Hicks made sense in this context. The practical issues of free trade and the free labor market, the gold standard and the budget of a mere police state for a time invited applications of systematic economic thought and offered the theorist opportunities for brilliant duels and charges against "cranks" and the multitude of "special interests." Even if the management and accounting practices of business firms and state treasuries were not greatly affected by systematic theory, policy making was.

Since the Great Depression the drive to establish a self-regulating system of markets has lost its potency and fascination, and the theory of such system

[8] Bronfenbrenner, *Am. Econ. Rev.*, Vol. XXXII, No. 3, p. 557.

has therefore lost its relevance. At present we cannot even point to a sector of economic life—let alone the economy as a whole—in which the uncontrolled market has a chance of becoming an independent, effective regulator of production and consumption. The "other things" that economic discourse used to assume constant—political volition, social objectives, national and racial drives—stand revealed as dynamic determinants of economic activity. And in the place of a few narrowly circumscribed areas left to the rule of "extra-economic" determinants, charity, infant-industry protection, or public utilities, appears an all-embracing pattern of socially determined economy. The general forms of this pattern can be found in the experience of the last 15 years, in this country and abroad, in a great variety of specific institutions and procedures. Under these conditions, the sparring about an economic theory of value and equilibrium, and the crusade against the interference with market self-regulation by protectionists, collectivists, monopolists, and currency cranks has become a quixotic enterprise.

When John Maynard Keynes asserted that market economy may produce persistent involuntary unemployment and that it balances itself by fluctuations of employment rather than prices, wages, and interest rates, he closed in effect the epoch of pure and systematic economics. Whether or not his theory is correct, the great economist confirmed the widespread feeling that society cannot renew the experiment of market economy without paying a price that it is obviously unwilling to pay; periodic and prolonged mass unemployment. However useful Keynesian theory may be as a stimulant to certain ways of action, it does not offer a positive system of economics. It entrusts public authority with the task of restoring or maintaining economic equilibrium.

The adversity of historical development need not spell the end of systematic economic theory, were it not for the fact that nothing in human experience but the drive for a self-regulating market economy ever called for a specifically and purely economic rationality. Neither history nor anthropology, neither the experiences of primitive societies, the middle ages, mercantilism nor those of contemporary Russia, Britain, and America makes a purely economic theory of price, distribution, and choice seem sensible. Neither do they encourage us to proceed as if all the relevant aspects of cost and satisfaction could be expressed in money units, that everything desirable but scarce could be given a price tag, everything undesirable but required, a cost tag, and finally that rational choice could be made on the basis of this system of prices alone. Moreover, nothing but the fiction of market economy permits the student of economic life to reduce the rationality of producers and consumers to that of buyers and sellers.

Whether it is the traditional fiction of capitalistic market economy or the utopia of a socialist state playing market economy, unless we think of market economy it does not make sense to claim that a specifically economic rationality should be the sovereign ruler over the production and distribution of goods. Therefore, the criterion of such rationality, behavior in accordance with the price gauge, is not generally applicable.

Behavior is often reasonable in spite of its apparent conflict with the price gauge; for we know that the price gauge is (1) subject to manipulation and

(2) an incomplete guide to rational action. No intelligent production manager anywhere in the world will believe that prices are merely data. He knows that they are made, by whom, and how, and are changed by industrial and governmental agencies that respond to political and economic pressures. Nor would it do him any good to take existing prices of land, labor or products as his only, or decisive, guides to action. He cannot well overlook the fact that the monetary commensurability of the various wages and prices does not supersede the incommensurability of the social and political situations that surround the respective groups or workers, suppliers, or customers. The rationale of enterprise and performance comprise a great deal that is inaccessible to the price calculus.

This does not at all destroy the usefulness of the price calculus as a managerial device. Nor does it bar independent thinkers from pursuing the logic of any system they please to imagine. The argument only indicates that we cannot coördinate economic facts by the rationality of pure economics; and it suggests that the price calculus should be understood as just one of the various devices of rational management.[9]

As far as the coördination of economic facts is concerned, it is clear that where there is no self-regulating economic system there can be no equilibrium in purely economic terms. Therefore the congenital preoccupation of systematic economic theory with "a search for levels of equilibrium rather than an unfettered study of economic processes," which John M. Clark criticized, appears as its decisive disability. Since systematic theory "hardly dares press beyond . . . those aspects of broad processes which can be treated in terms of an equilibrium of the exchange value sort,"[10] nearly all of modern economic life has come to lie outside the scope of such theory. Economic life can only be understood within a framework that comprises both the disequilibrating and the equilibrating powers of political, religious, and social drives. Certainly, our war economy has taught us that allocation and rationing of goods by the government, no-strike pledges by trade unions, price discipline of business men, etc., can play a decisive rôle in balancing the economy.

It appears then that we do not have today a consistent and self-contained body of economic doctrine, that is, an economic system. As for the actual ways of our economy and that of other countries, the term "mixed economy" is an understatement of our inability to press what we do and see into a system. Economics as a doctrine of rational behavior in a self-regulating system of markets has no significant place in our life. But economics as the "unfettered study of economic processes" is of vital importance.

It is not surprising therefore that people actively concerned with economic analysis and policy look in vain to systematic theory as a realistic and con-

[9] Probably the advice to Russian managers to observe "the law of value" is no more than another reminder of the need for a more effective use of the price calculus. But it would be most surprising if they were allowed to place "the law of value" above the complex of party and state, regional and local requirements. See discussion in this *Review*, 1944 and 1945.

[10] John M. Clark, "Economics and Psychology" in *Preface to Social Economics* (New York, 1936), p. 93.

structive guide to what is and what should be done. Nor is it surprising that the principles course that introduces the student to that theory shows a tendency to degenerate into an oblique and irritating exercise in logic. But it would be surprising and deplorable if the teachers of economics continued to rely on an educational device that does not educate, on a method of unification that distracts, and on a stimulant to understanding that brings disappointment and confusion to the student.

A Basic Course in Political Economy

To evolve a new and comprehensive theory of political economy is a challenge to all economists today. It demands a fresh inquiry into the nature and causes of the wealth of nations. No active economist can overlook this challenge. At the same time no teacher of economics can afford to await the arrival of a new Adam Smith while offering the old for guidance to his students, or worse, letting them go with the propositions of Smith's dogmatic epigoni.

It is possible today to reform the teaching of economics on the basis of two fairly widely accepted ideas: (1) It is necessary to impress the student from the very beginning with the essential unity of the social studies both with regard to their intellectual roots and their subject matters.[11] This means that the basic course in political economy must strike out for a viewpoint that commands a wider area than the conventional area of economics. It must comprise materials, methods, and approaches offered by politics, philosophy, sociology and anthropology. What is needed is of course not a sort of algebraic sum of the conventional offerings in these departments, but a synthesis of the basic contributions of these disciplines. This may sound more formidable than it is. The minimum requirement is literacy of the teacher in the broader field.

(2) History being the "laboratory" of social theory, the basic course must bring history to bear on the study of economic affairs. This means that the origin and meaning of economic institutions, movements, concepts, and policies must be examined in their historical context, as part of the broad process of human history.

How to achieve the synthesis of disciplines and the effective use of the historical approach are major problems of conception and teaching. No final solution is available. There is a wide field for bold new enterprise. Columbia's two-year survey course, the current form of which has been aptly described by Hacker,[12] holds out a good deal of promise as an introduction to intermediate work in economics, and indeed that of various disciplines of social studies.

At Bennington College, on the other hand, the basic courses in political economy are taught as highly selective one-year courses, deliberately avoiding

[11] This need was well stated in the presidential address of Professor A. B. Wolfe on the subject of "Economy and Democracy," at the 56th Annual Meeting of the American Economic Association, *Am. Econ. Rev.*, Vol. XXXIV, No. 1 (Mar., 1944), pp. 1 *ff*.

[12] Hacker, *Am. Econ. Rev.*, Vol. XXXV, No. 2, pp. 137 *ff*.

the survey-course approach. In one of these courses, taught by the author, the students study several historical situations, their characteristic events, issues, and intellectual contributions. The situations have been chosen for their bearing on the cultural crisis and the discoveries of our time, and are discussed in this sequence:

(1) The origin and significance of the Ghost Dance among the American Indians in the late 19th century; (2) the crisis and debacle of the French Republic, 1933-1940; (3) the transformation of English society and the beginning of the experiment in market economy, 1750-1850, especially the time around 1800 and the thirties; (4) the foundation of American democracy; (5) the "safety valves" of market economy; (6) the Great Depression and the War. The students read original contributions, for instance, Alexander Lesser's book on the Pawnee Ghost Dance; a variety of contemporary reports and some background material on the French crisis; Karl Polanyi's *Great Transformation;* the classics, Burke, Owen, Mantoux, the Hammonds, Marx, Dicey, Disraeli, etc., on England; Hobbes, Locke, Rousseau, *The Federalist,* and books by Carl Becker and Charles Beard on the foundation of American democracy; Turner, Webb, Hacker, and others on market economy and industry in the United States; E. H. Carr, H. W. Arndt's *Economic Lessons of the Nineteen-thirties,* Alfred W. Jones's *Life, Liberty and Property,* and books by Frederick Lewis Allen and Reinhold Niebuhr on the Great Depression and the War. Textbooks are not used, except for reference purposes, for instance, some chapters in Crowther's *Outline of Money.* Class meetings are devoted to coördinating the material and the students' individual studies of such authors as Malinowski, Toynbee, Tocqueville, Mises, Wootton, Berle and Means, Blaisdell, Lenin, and papal encyclicals. Wide gaps in the course program are accepted in the belief that the understanding of one human situation, presented in full view, may well be the best preparation for an understanding of any other human situation. It is also believed that the achievement of the desirable breadth and continuity of knowledge must rely on the curiosity and initiative of the individual student beyond the work in a single course, and on his ability to strike out on his own.

A course built around a set of specific situations or happenings makes it possible to resolve the conflict between theories and institutions as a focus of teaching. Ideas as well as organizations and laws are created and destroyed at certain times and in certain places. In fact, their interrelation, their vitality or decay, their meaning and change of meaning cannot be understood outside the framework of specific historical situations. The method of this course helps to avoid the dilemma that teachers have encountered when trying to decide whether it is better to organize their courses along sequences of abstract propositions or sets of uncorrelated descriptions. It makes it possible for the teacher to let both ideas and institutions emerge in a natural way, that is, through the story of a human event.

In the order of the six topics outlined above there appears a series of important economic and political problems. For the purpose of this article it may suffice to indicate the main economic problems that are presented to the student in each of the six situations: (1) social and private economy, natural

resources; (2) currency, incomes, and employment; (3) poverty and industrial labor, generation and rationale of market economy, economic fluctuations, protectionism; (4) taxation, the public debt, industrialization policy; (5) investment and employment opportunities, corporations and labor unions. The sixth topic, the Great Depression and the War, is used to examine how the economic institutions, concepts and policies discussed before were challenged and how the challenges were met, in theory and practice. Similarly a set of political-anthropological problems runs parallel to the topics. Clearly the topics should be chosen and arranged in such a way as to bring out the problems and characteristic approaches that economists and political scientists have found relevant, in the past and the present. As far as their methods of analysis are concerned, they are best understood when presented in close relation to the substance of their teachings.

Such courses should be effective substitutes for courses in the principles of economics. After having taken the basic course students should be ready to go into intermediate, specialized work in economics, equipped with a general orientation, a taste for the relevant, and a foundation in economic knowledge. They should be conscious of what they know and what they do not know.

Observations on More Advanced Work

To gain well-rounded knowledge, the student majoring in economics will need more substantial work in economic history and theory. He must expand and consolidate his knowledge of concepts and analytical techniques. Likewise he must become familiar with some of the special skills and problem areas, such as statistical techniques, economic geography, management, labor and industry, agriculture, fiscal policy, money and banking, international economic relations. On the whole, colleges seem well-prepared for instruction in these special fields. There are plenty of experts and good teachers. But it seems reasonable to expect that the general orientation and the sharpening of the students' interest in the basic course will affect the way the special courses are taught and received.

The economics major should conclude his college career with work designed to bring together on a higher level the elements acquired in the basic and intermediate courses. This might be done in a seminar in contemporary economic policy. Such a seminar could be focused on one contemporary issue, for instance, a measure of legislation enacted or contemplated. The students would study the theoretical and technical problems, the historical precedents and consequences, and the social ramifications of the measure. The group should consider the entire complex of legislative and administrative, technological and market aspects. Such work should prepare the student for intelligent and active participation in policy making, as executive, adviser, or citizen, and test his capacity for research, thinking, and writing. It might be paralleled by advanced work in any one of the special fields.

In this curriculum, the student would encounter the concepts and methods of economic analysis at all levels, basic, intermediate, and advanced. In contrast to past procedure, this information would not be offered to him as the

unifying agent of economic studies, but as the intellectual product of specific situations or authors, capable of dealing with specific problems: the *Tableau Economique* and the equation of exchange, marginalism and Keynesian employment theory, the gold standard rules and Oscar Lange's rules for managers. To evolve his point of view the student should rely on an understanding of history and of the relation of the economic to the whole of human experience. In this way, he might also find out why "laws of economics" could be regarded at one time as sovereign governors of man's material life, while today—and throughout most of history—economics is knowledge about the management of production and distribution. When this understanding ceases to be a mental reservation accompanying a man's preoccupation with an economic "apple-pie world," and when it is applied productively to the tasks at hand, it will give economics a much stronger position in the college.

Summary

There are many indications that we need a new conception of the curriculum in economics. Teaching experience and theoretical examination of the subject matter of the economic-principles course suggest the need for an educationally more valuable procedure. The course in economic principles should be abolished because there are no specifically economic principles capable of unifying our economic experience today. To familiarize the student with the social aspects of production and distribution should be the purpose of economics in college education. A broad course in political economy, combining viewpoints and selected materials of all the branches of social inquiry, and taught with reference to history, appears as the best point of departure for the major in economics and the best provider of elementary economic literacy for the general student. The experiences of Columbia and Bennington indicate various practical ways of developing such a course. The latter in particular points to a way of avoiding the survey course approach and the dilemma of "theory *vs.* institutions" by centering the work on a few specific historical situations. The economics major should follow up the basic course with a variety of special studies and have a chance to coördinate these studies in an advanced seminar on economic policy.

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* The author, professor of economics, now on leave of absence from Bennington College, acknowledges indebtedness to Karl Wm. Kapp of Columbia College for stimulating ideas and suggestions that emerged from long discussions of this subject.

Monopoly Dissolution: A Proposal Outlined

Maintaining Existing Production Arrangements and Creating Competitive Sale

The failure of our national antitrust policy to create and maintain a highly competitive economy is manifest. Although larger appropriations for antitrust prosecutions are clearly desirable, experience has shown it to be virtually impossible to restore competitive conditions by criminal penalties and

dissolution decrees. Where an industry is already dominated by a small number of concerns, it is impossible to restore competitive conditions with the instruments at hand.[1]

Production and sale in much, and possibly most, of manufacturing, are most economical if conducted on a scale so large that the entire market is supplied by a few concerns. Large sectors of mining and distribution are also most economically conducted on a large scale. Mutual dependence where there are only a few rival concerns inhibits competition even in the absence of collusion and may result in prices not very different from those a monopoly would charge. To prohibit a single firm from supplying more than a fixed small proportion of the total market, by whatever means, would result in wasteful methods of production and distribution in such industries. Thus, even where domination of a market can be proved, the courts have been unable to find measures which would retain existing economies while creating competition sufficient to drive prices down to costs.

This paper outlines a plan which aims to preserve existing economies of large-scale production and at the same time to strengthen the downward pressure on prices in monopolistic industries. Though designed primarily to bring about price reductions, this proposal should largely eliminate the abuse of rivals by dominant concerns and stimulate cost reductions. Broadly speaking, this plan would retain intact the producing units currently in operation while creating a number of independent selling units that would depress prices near their competitive levels. These selling units would jointly own and manage a single production system and would press for its economical operation while pursuing independent sales policies. This plan would be almost entirely self-enforcing and would not require continued intervention or policing by an administrative agency. In outline, the proposal calls for the following steps:

1. The plan would be put into effect after a court or special administrative agency found an industry to be less competitive than the public interest required.
2. The administrative agency would determine the number of independent selling units required to secure the desired degree of competition. The ideal would be a number of sellers such that price reductions by an individual firm would not bring forth immediate retaliation from its rivals. Secondly, the number of concerns decided upon should involve a minimum of duplicated selling facilities.[2]
3. Independent selling units would be established in the desired number and trustees would be appointed who would be responsible for initiating the selling enterprises. The administrative agency would issue to owners

[1] Purdy, Lindahl and Carter, *Corporate Concentration and Public Policy* (New York, Prentice-Hall, 1942), p. 351.

[2] These two considerations leave a wide margin of latitude. Theoretically, the number of firms needed to eliminate oligopolistic patterns of business behavior is indeterminate. Beyond the point where the interdependence of rivals' price policies is obvious and direct, the severity of the downward pressure on prices seems to vary directly with the number of sellers.

of the dissolved "monopoly" concerns a share of stock in a particular selling unit in exchange for every share currently owned.

The total amount of stock allocated to each selling unit should be approximately equal. If there is a large owning interest, its stockholdings would be confined to one selling unit and the other selling units would have smaller stock holdings. The number of selling units established would be determined by the number needed to secure rigorous competition rather than by the existing distribution of stock ownership. Big owning interests might be required to reduce their stockholdings to, say, 10 per cent of the total within a few years.

4. The administrative agency would finance the initiation of the selling units by transferring to them for this purpose some of the liquid funds of the "monopoly." If available funds were inadequate, they would be borrowed from the cheapest available source of funds on behalf of the producing concern.[8] The amount transferred to each selling unit for this purpose would ordinarily be in direct proportion to the size of its stock holdings. The selling facilities of the "P.C." would be liquidated and the funds received thereby used to finance the selling units. It is to be expected that the selling units would purchase almost all the "P.C." 's selling facilities.
5. Trustees to initiate the selling units would be selected by the administrative agency. Presumably many of the chief selling executives of the monopoly would be appointed and the others would be chosen for their knowledge of industrial problems and for social-mindedness. The stockholders in the selling unit could replace the trustee when and if they desired. It would be the trustee's first job to arrange quickly for the election of a board of directors, who in turn would select the selling unit's executive personnel.
6. Each selling unit would have the privilege of buying an almost unlimited number of units of the formerly monopolized product from the "P.C." at a price fixed for all selling units alike. An upper limit might be placed on purchases by any single selling unit at, say, 15 per cent of the preceding year's sales by the "P.C." if there is danger that a few firms will buy the entire output and, by collusion, fix high prices.
7. The price charged by the "P.C." normally would equal average total unit costs at a "standard" level of output. Costs would be calculated according to standard accounting procedure and such special procedures as the administrative agency might establish. It is not essential for the success of this plan that the prices charged by the "P.C." exactly cover total costs. Prices above that level would yield profits which would be distributed to the selling units in proportion to their sales. Prices below that level (as where demand suddenly fell and a price reduction was required to clear the market) would be absorbed from the reserve for contingencies.

[8] The producing concern, as the term implies, is that part of the dissolved "monopoly" which produces on behalf of its member selling units. Hereafter it will be denoted by "P.C."

The calculation of costs implicit in accounting techniques is often arbitrary and highly conventionalized. Nevertheless, successful operation of this plan does not require precise measurements of "true costs" since all selling units would be charged the same amounts and since profits would be distributed in direct proportion to sales. Where the "P.C." produces only one commodity, mistakes in accounting would be prejudicial to no one. Where more than one commodity is produced, discrimination against some selling units is possible. Therefore appeals should be permitted to the administrative agency under certain conditions for changes in the allocation of costs among the various products.[4]

8. Profits which remain to the "P.C." would be set aside as a reserve for contingencies up to a fixed proportion of total assets and the balance distributed to the selling units *in proportion to their sales volume.*
9. The brand name employed by the monopoly would remain the property of the "P.C." Selling units could use it or not as they saw fit.
10. Losses suffered by the "P.C." because of sales below the "standard" level would be absorbed by its contingency reserve, which would be replenished from subsequent profits.
11. The "P.C." would be notified of the sales made by the individual selling units and would arrange for delivery in accordance with priority of order. The "P.C." would, therefore, maintain its existing centralized shipping departments.
12. Special costs allocable to individual sales would be paid for by the company making the sale. All delivery costs would fall in this category as well as costs for special services performed by the "P.C." on behalf of individual selling units.[5]
13. Individual selling units could, if desired, be allowed to advertise on their own account, even to use private brands. They could also be permitted to offer special sales incentives like guarantees and credit terms.
14. Votes in the "P.C." would be based upon stock ownership.
15. Long-term contracts in force at the time of dissolution would be handled directly by the "P.C." and profits from these contracts would become part of the common pool.

[4] It is important to observe that this proposal does not call for price fixing by a public agency. The proposal calls for establishing a condition and a series of rules at the time of dissolution which would be policed by private rather than public interests. The proposal incorporates two primary safeguards of its objectives: (1) some selling units have interests antagonistic to the concealment of high prices and profits in the "P.C."; (2) the large number of sellers established is safeguard against collusion in selling—the only known protection against collusion.

[5] If desired, the "P.C." could be permitted to make changes in the product or even produce new products at the request of individual selling units. The selling unit presumably would be required to provide the entire cost of the new equipment required as well as the other costs incurred in making the desired changes. These special services and new products would be priced by the board of directors with technical assistance. Though allocations of costs will never be exact, the success of this plan only requires that all firms agree to the method of computation. In the event of disagreement, appeal to the administrative agency might be permitted.

16. The "P.C." would conduct research, the fruits of which would be available to all members of selling units equally.

In assessing the merits of the plan outlined above, it should be understood that it is only a bare outline and also one of a large number of possible variations. There are surely weaknesses in these suggestions which experience would uncover, and for which experience would probably also provide an answer. However, enough detail is presented to make concrete the thesis that the number of independent selling units can be many times as large as the number of producing plants.[6]

Implications of the Proposed Plan

Lower Prices

This proposal should lower prices where they have exceeded competitive levels by multiplying the number of rival selling units without giving rise to an offsetting increase in costs of production and distribution. There remains the danger of collusion among the individual selling units. It might be argued that the joint management of the "P.C." makes "coöperative" pricing highly likely. The chief safeguard against collusion among the selling units is their large number. Even in many trades where there are active trade associations or coöperation for the procurement or prevention of legislation, price competition has been keen if there were many sellers. Examples among the retail trades are drugs, dry goods, groceries and furniture. Moreover, in the appointment of trustees in the new selling units, the administrative agency would presumably try to find men who would refuse to collude and who might even disclose attempts at collusion to the administrative agency. Collusion would also be inhibited by buyers playing one seller off against the others. Buyers have a strong incentive, and fairly potent bait, for luring individual sellers away from collusive arrangements. Finally, the fact that selling units would be fairly equal in size would prevent domination of the trade by a few large units.

Pressure for Economical Production and Sale

An allegedly important evil of monopoly is relative inefficiency in production and sale resulting from feeble pressure to minimize costs. This proposal should substantially increase pressure for cost reductions where production had been inefficient due to the monopolistic sense of security and ease and managerial "control" through control of the proxy machinery. By increasing owner control this plan should largely eliminate inefficient methods

[6] An arrangement fairly similar to the plan outlined here actually prevailed for a long time in the cane sugar refining industry. The California and Hawaiian Sugar Co. was composed of many independent raw sugar producers in Hawaii welded together in a refining coöperative. Individual producers sold their refined sugar independently (though under the same brand name) and from the same physical refineries. It is alleged that the individual producers competed as vigorously with one another as they did with other members of the industry. See Boris Emmett, *California and Hawaiian Sugar Refining Corporation of San Francisco, California* (Palo Alto, Stanford Univ. Press, 1928).

of production and sale. Stockholders who before the dissolution of the monopoly were too small to exercise control over its operations would after dissolution secure effective representation within their individual selling units. In voting their stock, the various owners of an individual selling unit could be expected to act in unison through a single representative who would serve as guardian of the selling unit's interests. These owner-representatives would presumably have no patience with inefficient or lax management of the "P.C.," for it would increase the selling units costs and compel them to maintain high selling prices.[7] More easily than they could guard against production inefficiency, the selling units could prevent management from overcompensating itself. Greater compensation for the executives of the "P.C." would mean smaller profits remaining for distribution to the selling units.

As outlined here, this plan should preserve the technological economies of large-scale production by maintaining the existing production structure. Similarly, managerial, purchasing, research, delivery and advertising economies[8] would be preserved by this plan. It would, however, increase selling costs somewhat as the number of independent selling units operating in the same market areas was multiplied. Competition requires many sellers and therefore imposes a charge in the form of duplicate facilities which partly offsets the price reductions afforded by competition.

The increase in selling costs resulting from this plan would, however, be small. Since almost all selling units would sell the identical product and receive no preference in delivery, rivalry among them would almost exclusively take the form of price competition. As in the case of purely competitive markets, distribution at the selling unit stage would be virtually costless. In order to ask minimum possible prices while obtaining a profit, selling units would presumably restrict their promotional activities to informing buyers of their existence and of the price at which they are willing to sell. They would await orders and keep records of their sales, payments received and debts outstanding. Any selling unit that engaged in costly high-pressure distribution would lose out to those whose restricted promotional activities permitted them to sell at the lowest price. Hence, though this plan calls for a duplication of selling facilities, by making the market almost purely competitive it keeps distribution costs to a bare minimum.

Moreover, this proposal could stimulate efficiency in selling by permitting easy entry of new sellers while preserving the threat of bankruptcy. Freedom

[7] Even though all selling units might be equally affected by inefficiencies so that no one suffered relative to the others, there are several factors that would cause the seller-owners to press for maximum production efficiency. First, they would often be competing with other sellers of the same product outside the dissolved monopoly. Second, they would be in competition with more distant substitute products. Third, they would probably feel that they could enlarge their total sales and profits by selling at a lower price. Fourth, they would probably be emotionally prejudiced against unnecessary waste and against paying high salaries to persons who did their jobs poorly. Owners of monopolies are also interested in these things. However, they are not able to exert strong influence on management because stock ownership is too widely diffused to allow owner control.

[8] Advertising of the *product*, even if private brands were used by individual selling units, would presumably be continued by the "P.C."

of entry could be facilitated by allowing new selling units to join the "P.C." by investing a sum fixed by the administrative agency. The new firm would be issued shares of stock of equivalent book value which would entitle it to a voice in the management of the producing unit.

Conversely, this plan allows for no slush fund that would cushion selling units from the full effects of competitive pressure. Whereas a monopoly might carry on wasteful selling methods which it financed from its monopoly profits, selling units which operated inefficiently would presumably be forced to leave the trade. Thus there is good reason to hope that the proposal would contribute to efficient selling and thereby compensate at least in part for the necessarily higher minimum costs of selling resulting from duplicated effort.

Industrial Situations to Which This Plan Is Adapted

Most amenable to monopoly dissolution are those firms which produce a single standard product. Multi-product producers, however, are susceptible to the same form of dissolution, but with much greater complication of detail.

In the event a multi-product firm was dissolved, each selling unit could be allowed to sell any or all of its various products. Selling units would share in the excess profits on the basis of their dollar sales volume. Problems would primarily arise around the allocation of joint costs among the individual products currently produced and in assigning costs to new products. Selling units would have an interest in being undercharged for the articles they sell in greatest volume and in being overcharged for the articles of which they sell the least.

Accounting convention would solve most of these problems. The flexibility of accounting procedures, however, makes it advisable to permit appeals to the administrative agency for a change in the method of calculation. After a short period, the rulings of the administrative agency would supplement accounting convention so that appeals would probably be infrequent.

In the case of new products, it would be best to allow only marginal (avoidable) costs to be charged against the new product. Otherwise, the combine might never produce and sell a product which would both cover its own costs and yield a profit to the selling unit which introduced it.

This plan could be applied to almost every large industrial corporation (monopoly or not) without danger of doing serious damage. Court dissolutions of the past often increased costs and were undertaken reluctantly. The plan presented here need not be used so sparingly. Of course the plan would hurt owners of monopolies. In the place of monopoly profits they would ultimately be limited to the profits of competitive industry. But this is no danger; it is one of the objectives of monopoly dissolution. A plan that is painless can only disguise monopoly while preserving it.

A partial and suggestive list of the industries to which this plan might be successfully applied follows: insurance (life, fire and casualty), steel, railroads, aluminum, sulphur, telephone, telegraph, oil refining, tobacco, sugar refining, radio broadcasting, electric power, automobile manufacturing, and metal and glass containers.

Alternative remedies for the monopoly problem rest upon the assumption that the number of producing firms and the number of independent sellers must be the same. Yet there are ordinarily many times as many sellers as there are producing units in virtually all of modern industry. The activities of the producing plants and salesmen are coördinated through accounting convention just as clocks, through the uniform measurement of time, integrate the activities of individuals. Presumably, costs would be calculated and allocated among various products in the same way after dissolution as before. The arbitrary and inexact elements need be no greater and uneconomical than they are now.

Thus, there are no apparent mechanical reasons why there cannot be many more sellers than producers. The task is to create a motivation which would induce sellers operating out of the same producing concern to compete vigorously among themselves. For this, too, there is precedent. Prior to the war it was not uncommon for automobile dealers selling the same brand of automobile to compete strongly for patronage and drive up trade-in allowances.

This proposal suggests one of many possible arrangements which offer hope of creating strong rivalry among sellers who own and operate the same source of supply. In the absence of experimentation with such arrangements, their consequences cannot be foretold with great confidence. With much greater confidence, one can decide whether this proposal deserves a trial.

This plan is advanced primarily for industries where only a few large concerns are currently operating and where economies of large scale make it costly to compel many firms to operate. Where monopoly stems from other causes, such as patents, specific cures might be preferable.

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Fetter on Lauderdale

Professor Fetter, in his discussion of "Lauderdale's Over-saving Theory"[1] considers it as the beginning of the general attack on classical doctrine which was carried on by Malthus, Hobson and Keynes. It should be noted, however, that, while the theories of Hobson and Keynes point to a program of reform, the early opponents of classical doctrine such as Lauderdale and Malthus were apprehensive of the social changes resulting from the industrial revolution. They defended the privileged position of the land-owning aristocracy against the attacks of the manufacturing classes and the social reformers who were demanding an end to the oppressive Corn Laws. Professor Fetter misses the drift of Lauderdale's work, especially with regard to the social perspective revealed by Lauderdale's policy proposals. Fetter argues (pp. 275-76) that Lauderdale's "motive" in writing the *Inquiry*[2] was to attack a debt reduction policy (the sinking fund) because he feared it would raise the price of public securities and lower the rate of interest. Lauderdale's "class-conscious sym-

[1] *Am. Econ. Rev.*, Vol. XXXV, No. 3 (June, 1945), pp. 263-83.

[2] *Inquiry into the Nature and Origin of Public Wealth* (1st ed., 1804; 2nd ed., 1819).

pathies" were with the investing class, Fetter claims, and thus he opposed the sinking fund which gave rise to a situation in which "rich investors are faced with the unpleasant necessity of reinvesting the proceeds of the redeemed bonds at a time when the interest rate on both public and private loans has fallen and, correspondingly, the price of securities of the same grade has risen above the call price of the old bonds issued under the stress of war" (p. 280).

This reasoning is based on a misconception of the English method of debt creation. The argument implies that during the war with France (1793-1802; 1803-1815) the government was forced to issue bonds bearing unusually high rates, and with the return of peace such bonds—having risen above par—would be the first to be redeemed. But this was not the situation. The customary procedure was followed of issuing bonds with a low nominal yield (3 per cent) and offering them to subscribers at prices substantially below par (in 1798 at half the par value). Refunding at a lower interest rate after the Peace of Amiens or the final peace in 1815 was, therefore, impossible as far as the bulk of the securities went, since over three-fourths of the war issues were in 3 per cents, and these never even approached par.[3] Certainly "war profiteers" would hardly have found it "painful" had the government after the war decided to call in at par consols selling in the market at £54. The sinking fund operated by purchases of bonds in the open market. There was no policy of purchasing bonds issued "under the stress of war" in preference to older issues, since bonds originally offered at various prices below par currently sold at prices proportional to their *nominal* rates of interest without reference to the real rates at which the money was first borrowed.

Lauderdale opposed the debt reduction policy because heavy taxes, which burdened the landed classes, were required to continue it. Coincident with the publication of the second edition of the *Inquiry,* he made a speech in Parliament indicating the basis of his opposition to the debt reduction policy: "The imposition of £3,000,000 of taxes, at the present moment, was an act of the grossest injustice. Granting that it was necessary to make a sinking fund of £5,000,000, was it not necessary to give the country a little respite from taxation? . . . The best way of arriving at a sinking fund with convenience to the country, was to allow taxation to relax for a moment, in order that it might attain that object."[4]

Lauderdale's attack on the sinking fund was not an isolated expression. It was part of a widespread agricultural agitation against taxation. This agitation came to a head in the depression of 1822. Meetings were organized, and petitions protesting the unabated payments to the fundholders and the "overwhelming and all-devouring taxation" were sent to Parliament.[5] Lauderdale's contribution to this campaign was a pamphlet entitled *Sinking Fund, or the system which recommends the repeal of five millions of taxes compared with the system which recommends levying five millions by taxation for the redemption of the public debt.*

The other major economic issue in which Lauderdale participated was the Corn Laws. Contrary to Fetter's assertion (p. 283 n.) that Lauderdale deplored trade restrictions, the record shows him to be an indefatigable cham-

pion of agricultural protectionism. He gave strong support to the restrictive Corn Bill of 1815, and to the end of his Parliamentary career he remained an uncompromising advocate of stringent prohibitions on grain imports.[6] Removing the Corn Laws, Lauderdale argued, would not mean free trade "while there were so many taxes which pressed on our agriculturists." It would, in effect, be giving a bounty to the foreign grower of grain. On the other hand, the corn regulations protected British agriculture from the ruinous effects of foreign surpluses, stimulated employment and demand, and made Britain independent of foreign powers for her subsistence. Such benefits transcended in importance the short-run gain derived from the importation of cheap corn.[7]

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"The Concept of Economic Surplus": Errata[1]

P. 851, line 12 from bottom: Insert *for the sellers* after *surplus.*
line 9 from bottom: Insert *for the buyers* after *surplus.*

P. 853, line 11: Replace *rent* by *surplus.*
Figure 1: Point N_1 and N_2, lying on the line NB_1 at the dotted lines, not marked.

P. 856, line 21: Replace r_0P_0 *by* r_0p_0.

P. 857, line 2: Replace $p'_2p_0p_6$ by $p'_2p_0p_4$.

P. 858, Figure 3b: s_t, lying at the intersection of s_2p_2 and p_1w_1, not marked.

P. 859, Interchange lines 14 and 29
line 23: Replace dash by minue, sign.

P. 860, line 9: Replace ot_1 *by* r_0r_1.
line 26: Replace $os_1p_1r_1$, which $r_0p_0q_1r_1 -$
by $r_0p_0q_1r_1 - r_0s_1p_1r_1$

P. 861, line 13: Delete *as in Figure 2,*
line 14: Replace *slopes* by *slope*

P. 862, line 4: Replace $p_1s_1n_1$ by $p'_1s'_1n_1$
line 7 from bottom: Delete dash

[3] The figures are derived from Robert Hamilton, *An Inquiry Concerning . . . the National Debt* (3rd ed., 1818), pp. 248-50. For the prices of consols see Leone Levi, *History of British Commerce* (2nd ed., 1880), table facing p. 72.

[4] Hansard's *Parl. Debates* (ser. 1), Vol. XL, p. 1232.

[5] William Smart, *Economic Annals of the Nineteenth Century* (London, 1917), Vol. II, pp. 57 *ff*. See also *Parl. Debates* (ser. 2), Vol. VI, pp. 555 *ff*.

[6] Lauderdale made a great many speeches on the Corn Laws between 1808 and 1828. See especially *Parl. Debates* (ser. 1), Vol. XXVIII, pp. 4-5, 59-60; Vol. XXX, pp. 142-43, 202-04; (ser. 2) Vol. XV, pp. 208-09, 1385-91.

[7] *Parl. Debates* (ser. 1), Vol. XXX, pp. 202-04.

[1] K. E. Boulding, *Am. Econ. Rev.*, Vol. XXV, No. 5 (Dec., 1945), pp. 851-69.

BOOK REVIEWS

Economic Theory; General Works

The Social Problems of an Industrial Civilization. By ELTON MAYO. (Boston: Div. of Research, Grad. School of Bus. Admin., Harvard Univ. 1945. Pp. xvii, 150. $2.50.)

To economists and especially to teachers of economics, this book will prove stimulating and at times shockingly irritating. With that portion of Professor Mayo's work which describes the difficulties of achieving effective coöperation in industry and advocates increased emphasis on the human factor, there must necessarily be definite agreement. In his discussion of these matters, Professor Mayo again proves himself not only an erudite scholar, but a down-to-earth philosopher with a sagacity founded upon his insistence on the utilization of objective clinical methods in studying industrial relations. On the other hand, with the thesis which apparently places the blame for both domestic and international ills largely upon the tenets of classical economic theory, there can be no meeting of the minds.

For the purposes of review, Professor Mayo's recent book may be divided into two almost independent sections. In fact, the author helps in that respect by designating Part I, Science and Society and Part II, The Clinical Approach. This latter part contains descriptions in considerable detail of three inquiries conducted by the Department of Industrial Research at the Harvard Business School, the first inquiry being on labor turnover in a textile mill, the second on the use of interviews at the Hawthorne works of the Western Electric Company, and the third on absenteeism and turnover in a number of metal-working plants. The material thus provides the reader with illustrations of the clinical approach to industrial problems and is also used by the author to substantiate his conclusions regarding the importance of social as contrasted with technical skills. Additional studies are briefly summarized in an appendix. In reading such studies there is sometimes the feeling that the same conclusions could be reached by deductive reasoning tempered with horse sense, but in a field of such transcendental importance as human relations, painstaking scientific methods should be used to the maximum practicable extent.

In Part I Professor Mayo indulges himself in a criticism of social scientists and their works from Ricardo to the present. According to the author, economic theory is based on a misapprehension which can be traced to Ricardo, the basic concepts (p. 40) being:

1. Natural society consists of a horde of unorganized individuals.

2. Every individual acts in a manner calculated to secure his self-preservation or self-interest.

3. Every individual thinks logically, to the best of his ability, in the service of this aim.

With these, Professor Mayo disagrees except under conditions of emergency or crisis when routines of coördination in a social group are broken, and he points to such motives as "desire to stand well with one's fellows, the so-called human instinct of association" (p. 43) as more important than self-interest and logical reasoning.

Without defending Ricardo whose own early retirement from stockbroking might be used to refute the power of self-interest, it should be pointed out that economists, both old and new, have repeatedly emphasized other types of motivation. It is not surprising that Professor Mayo finds a worker who refused to accept a new job at an increased salary when such reward meant leaving a congenial working group. Economic society weighs monetary rewards against working conditions, including surroundings and co-workers, and economists have long used the familiar term "psychic income" to cover various forms of non-monetary compensation. But economists still insist that individual self-interest is the dominant industrial fact, although they would not necessarily hold that such a dominance was best for an ideal society. Moreover, in regard to another aspect of economics, the author's statement, "scarcity of a necessary commodity is emergency or crisis" (p. 41), cannot be accepted as valid for this world in which economists must base their analyses on the prudential allocation of scarce means of production.

In his attack on the social sciences which are characterized as "the unsuccessful sciences," Professor Mayo is on firmer and relatively well-trodden ground. The natural sciences—chemistry, physics, physiology—have made miraculous advances and with them man's technical dexterity in handling things, while there has been no comparable progress in social skill which, in the author's words, "shows itself as a capacity to receive communication from others, and to respond to the attitudes and ideas of others in such fashion as to promote congenial participation in a common task" (p. 13). Admitting these points and in no way wishing to present an alibi for society's failure to develop adequate social skills, the reviewer feels that the reason lies in basic differences between things and beings, differences aggravated in an age of unusually rapid technical development. And the reviewer also questions the complete validity of the author's assumptions of earlier and simpler orders where technical and social skills were in balance. Even in such societies which Professor Mayo considers "established" in contrast to the present "adaptive" one, social skills lagged and the happy savage remains a mythical creature.

The most extensive and important application of Professor Mayo's thesis must now be considered, namely, the international one. The author states: "If our social skills had advanced step by step with our technical skills, there would not have been another European war" (p. 23); a theme which recurs in various places, including the final lines of the last chapter. In this disheartening post-war period there can be no one who does not fervently wish this were true, but proof is impossible. In the reviewer's opinion, Hitler was a consummate master of social skill and it is dubious if any opposing social skills could have deterred him and his followers from their mania for world

domination. Furthermore, it should be pointed out that economic theory in Germany was not of the classical British variety and also that the four horsemen have ravaged the world from times immemorial. The reviewer believes that it will require more than a reform of Ricardian theory to reach the new era of peaceful understanding. It will require the reform of the human heart.

JOHN W. HARRIMAN

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Le Développement de la Pensée Économique. By BERTRAND NOGARO. (Paris: Lib. Gén. de Droit et de Jurisprudence. 1944. Pp. 345.)

This book, written in the darkness of the occupation, is symptomatic of the old, not of the new, French economic approach. It is perhaps the last of the histories of thought published by a member of the school of writers made famous by Gide, Rist and Gonnard. Professor Nogaro makes no claim to originality and does not specialize in historical background work in which Gide and Rist, and more recently, Paul Hugon,[1] a French professor in Brazil, excelled. Nogaro presents a chronological survey of outstanding contributions to economics with particular emphasis on the nineteenth century.

The book starts with Cantillon, Quesnay and the Physiocrats, Turgot, Hume and Condillac, a group of authors who, as Nogaro puts it, studied the *ensemble* of economic organization. This first chapter on the *précurseurs* is clear, precise and makes easy reading. The three chapters following deal with the great classics, Adam Smith, J.-B. Say, David Ricardo and John Stuart Mill. They are written in the French textbook tradition, presenting collated excerpts in digest form, interspersed with comments.

Chapter 5 on Historism and Realism in the Nineteenth Century includes a comparative analysis of Schmoller and Wagner. However, casual reading might convey the erroneous impression that Adolf Wagner was a member of the historical school. In connection with discussions of the historical approach, if not with regard to other features of economic analysis, French economists have given rather extensive, though rarely sympathetic, treatment of Karl Marx. In this respect Nogaro's treatise differs from the traditional French histories of economic thought. He completely omits the treatment of Marx and Marxians. Omission of the more recent writings of Dickinson, Lange and Lerner can partly be attributed to a time lag in international intellectual osmosis which, however, does not apply to earlier socialist writings. Nogaro justifies omission of Marx by stating that dogmatic tendencies are excluded from this book. Was it the political condition of the time during which he was working on the book which forced this approach upon Nogaro, or does he really think that Marx had only dogmatic and no analytical contributions to make? In any case, economic analysis of the problems of a collectivist system seems to be beyond the pale as far as this author is concerned.

The chapter on The School of Vienna and Marginalism brings some good,

[1] *Elementos de Historia das Doutrinas Econômicas* (São Paulo, 1942).

although well-known, comments on Menger. It leans particularly on the writings of the recently deceased Gaëtan Pirou, author of *Les Théories de L'Équilibre Économique* and of *L'Utilité Marginale de Menegr à Clark*.

The next chapter is entitled The School of Lausanne and Economic Equilibrium. There are generous samples of Léon Walras's value analysis and there is no doubt that Professor Nogaro has given serious attention to this author. Pareto is given a prominent place but unfortunately he is primarily described as a popularizer of Walras, and not enough credit is given to his creative rôle as a successor. The work of Cournot receives even less attention in Nogaro's work than it was given by Gide and Rist. The explanation offered by the author is that Cournot had little influence on economists of his time. Since Nogaro does not deal with imperfect competition, the rôle of Cournot as a pioneer in the study of the theory of monopoly is not given justice. Barone seems to have been forgotten altogether and this is another indication of Nogaro's underestimation of achievements of the Lausanne school beyond the accomplishments of Walras.

A chapter on Neo-Classicism is largely devoted to Alfred Marshall and to John Bates Clark. There are several quotations and condensations from Professor Homan's *Contemporary Economic Thought*, particularly in the section dealing with Clark. Both Clark and Marshall are treated quite interestingly, and in the case of Marshall the various intellectual influences and cross currents are painted in a few bold strokes.

The chapter on Tendencies of Contemporary Economic Thought includes references to Mitchell and Spiethoff, Veblen and Commons, Simiand and a number of other writers. Among the more recent French economists, the professors of the Law School of Paris, Aftalion and Lescure, get their share of recognition, while for instance, René Roy, mathematical economist of a French engineering school, joins Barone in the ranks of forgotten men. This can be understood by Nogaro's attitude toward mathematical analysis in general.

Nogaro believes that our generation is one of eclectics in the field of economic thought and, indeed, from his perspective, eclecticism is all that can be seen, for most of the significant works written since the early thirties are not considered. Of Keynes he says only that "He uses with equal mastery statistical documentation and deductive reasoning," a compliment which Lord Keynes might have thought too much on one and too little on the other hand. Of Hicks, there is no mention, but then, *Value and Capital* was published in 1939 and because of war conditions, Nogaro may not have had an occasion to see it before his book was printed.

The last chapter, The Conflict of Methods is a swan song of an epoch. It is a plea for scientific analysis based on logical deduction and empirical investigation, but a rejection of abstract models and theories, particularly of the mathematical variety.

Nogaro is an erudite more than he is an analyst. He has given training in classical economics to thousands of students, but some of his pupils went abroad and came home with new ideas. His students will challenge Nogaro

as he challenged his elders when he talked to them about the teachings of Marshall, Clark and Mitchell. He will find discussions with the new generation quite stimulating. The conflict of methods will be evident.

HENRY SIMON BLOCH

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Economic Systems; Post-War Planning

The Great Transformation. By KARL POLANYI. Introduction by ROBERT M. MACIVER. (New York: Farrar and Rinehart. 1944. Pp. xiii, 305. $3.00.)

Dr. Polanyi has offered in this work an explanation of the present difficulties of Western European civilization. With an historical review that is almost wholly confined to England, he finds his answer in an asserted incompatibility between modern industrial society and the instabilities invoked by the capitalistic market system. We are in the midst of a conflict between two major idea-systems, conscious regulation of economic activity and the principle of self-regulating competition. As Polanyi views matters, free competition has always been a disorganizing influence, which has consistently invited organized interference to protect the very existence of society itself. Our present extensive departure ("the great transformation") from the individualism of the nineteenth century was not the result of ". . . some alleged laws of economics such as that of the falling rate of profit or of under-consumption or over-production. [That society] . . . disintegrated as the result of . . . the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market" (p. 249). Thus the Marxian thesis is summarily rejected, although in the spirit of Marx, Polanyi turns Professor Schumpeter upside down, since the latter holds that capitalism could survive *if* freed from "irrational" interferences, while Polanyi finds this a formula for destruction.

Economists, then, should cease to recommend a policy of free markets, and should get away from an artificial separation of the economic community from the remainder of culture. They should recognize the soundness of the efforts of articulate social groups to protect their positions from the incursions of market forces. Society has been "rediscovered," and those who make policies should get away from the notion of autonomous economic laws. Society is "complex" and "integrated," and the very concept of individual freedom may well be an illusion.

We are not told, however, how, in this new view of things, economic resources are to be allocated among competing uses. It is implied that the state, through the executive power and social legislation, is to control economic processes for the protection of "all." We are encouraged to believe that group struggles for economic advantage have their common ground in "social protection," and apparently need give no cause for concern. But the author gives us no specific political theory. One can envisage a "broker state" which is to distribute "equities" according to relative group power, imposing the

results upon an attenuated price and profits system (with the magnificent inconsistency that is now helping inflation along in this country?). Or, one can contemplate a thoroughgoing political absolutism, modern style, dominated by the minority representatives of a single group (similarly threatened with inflationary destruction of the total plan, and compelled to follow drastic authoritarian measures). But such speculation is left to the reader, for after furnishing an engaging defense of Interventionism in its many forms, Dr. Polanyi comes to no concrete results for present economic policy. Yet from the economic side of Interventionism, the solution to the problem of allocation and full resource utilization constitutes a major challenge to all partisans of increased control.

We may turn to a more detailed consideration of the argument. The point of departure is an evaluation of economic liberalism as a philosophy of social change. The proponents of this doctrine took it for an automatic principle, indispensable to a stable social order. The principle of competition as an ordering force had its inception, it may be noted, in the effort beginning with Hobbes in the seventeenth century to construct a social physics of the individual units of "human nature," which were taken to move according to simple mechanical laws, discoverable by reason. A century later, Smith and Quesnay had constructed a complete theoretical depiction of the natural order which would emerge from the free play of economic individuals in motion.

In this manner the *individual* became the primary conceptual unit in a theory of social policy. Sanction in turn was provided for a dual attack upon feudal and mercantile practices, and for a policy of *laissez-faire*. The nineteenth century was the high period for this system. Since 1914 these ideas have been obsolete, in the opinion of the author, and must give way to increased control. Any effort to sustain the free market economy is, in consequence, hopelessly utopian, since it represents an intellectual response to historical conditions no longer in existence. Society cannot, in these times, withstand the disintegrating atomization essential to letting individuals freely pursue their own interests.

This "social atomization" implicit to *laissez-faire* from the beginning involved the denial and destruction of society itself. It was in no sense the natural outcome of an ineluctable principle of truck, barter and exchange; it had to be imposed, by the destruction of existing social arrangements. Thus the commercialization of agriculture required the deliberate destruction of the medieval village community, and the whole feudal apparatus for controlling the unstabilizing effects of changes in long-distance trade. Even the Mercantilists aimed to protect the community and its established social groups from the disorganizing impacts of the free market. The conversion of human labor to the status of an economic commodity, initiated with the Act of Settlement in 1795, was checked by the Speenhamland poor relief system until 1834. In short, the introduction of economic liberalism was never a "natural development," but part of a conscious program which throughout met with opposition expressed in measures of social protection.

Laissez-faire involved intervention. It offered an enticing argument, by

geometrical demonstration, for social order. Actually, it created disorder. Resistance to the free market system was the response, to preserve order. This is true, the author finds, of the feudal regulations, the mercantile system, and the Speenhamland policy. It is also true of the "protective" efforts of interest groups down to the present time. Resistance to change has always been more natural to men than any impulse for free trade.

The repeal of the Speenhamland law in 1834 gave England free wage labor, by a measure whose "ruthless scientific cruelty" derived its intellectual justification from the classical political economy. The author is thus drawn to a reëxamination of the conceptual foundations of economic liberalism.

At the end of the eighteenth century, Godwin had attributed poverty to imperfect social institutions. Man himself was perfectible; all that was needed was to reconstruct society according to the principles of reason. As is already well known, this furnishes Malthus with the inspiration for his doctrine of population. Hunger alone could goad the poor to work, for men were beasts who would naturally reproduce their kind faster than food supply could increase. Nature ordained a balance of forces, physiological and environmental, in this zoölogical determinism. The concept, in turn, of struggle for existence, later entered biological thought in the work of Charles Darwin.

Ricardo built his own conceptual structure with these materials. He reaffirmed the artificial distinction between the economic and the social order. The economy had its own autonomous laws; they were independent, in the long run, of political action, and in the large were a part of the very order of nature itself. Only work and production could ameliorate poverty, and work required the spur of hunger. So emerged the basis for an attack on the poor relief policy.

The explanation for this wrong-headed doctrine is to be found, Polanyi believes, in the notion of "human nature." Men were taken to be individual economic atoms, driven by self-interest; under competition they serve society, and a harmonious social order is the logically necessary result. Mandeville foresaw the essentials of the argument in 1709. As a matter of policy, what was required was the elimination of interferences with free exchange, in all markets. The aim was the complete mobility of economic resources, irrespective of social costs. All of the theorems of this social "geometry" flow back to the principle of human nature.

But when Polanyi considers the data of history and the findings of cultural anthropology, he is convinced that the classical belief in an abstract human nature and its derivative institutional nexus is quite without foundation. Man actually prefers the stability of existing institutional arrangements, as the lengthy history of measures of social protection clearly shows. For most cultures, economic activity is not induced by an acquisitive "instinct." And save for the nineteenth century, economic activity is not conventionally separated in fact from the remainder of human activities. On the contrary, the procurement of economic commodities, with the exception of the market economies of private capitalism, traditionally has been organized under the social principles of reciprocity (mutual exchange between specialized groups), or redistribution (allocation of surpluses by an accepted authority), or

householding (direct production for use). Only under industrial capitalism has the principle of private gain-seeking been utilized as a means for the solution of the economic problem. This ignores, it may be mentioned, the indispensable activities of the trading class of the ancient Mediterranean world.

In his critique of classical economic theory, it will be observed that the author has revived Veblen's technique of "inverse normalization." The acquisitive principle is not normal; the free market is not normal; and the "policeman" state is not normal. Each was the artificial result of deliberate intervention. And the resistances to the policy ("frictions") are normal; they express man's natural resistance to the disorganizing effects of the free market.

Now in conjunction with this critique, it may be remarked, although the matter is not developed by Polanyi, that the attempt to explain the behavior of men by reference to an ultimate set of constants designated as human nature had its inception in the seventeenth century, in the work of Grotius and Hobbes. Under the influence of the mechanical physics of Kepler and Galileo, the attempt was made to reduce human behavior, by analysis, to its simplest elements, the "laws of human motion." From these axioms, a deductive synthesis could then be built up by syllogistic reasoning, to yield a theory of the state, society and the social order. For Hobbes, the basic "law" is self-preservation, from which he derived a theory of political absolutism. For Adam Smith, a little over a century later, the basic principle is rational self-interest, from which he derived the logical necessity for the liberal state and the institutions of the free competitive market. These rules of social life were true for all time, universal in application, because their underlying premises were intuitively true to human reason. The science of man was placed on a footing with the timeless laws of mechanical physics.

In rejecting this concept of human nature, Polanyi offers us another: that man naturally resists change and prefers the stability of existing ways of life. But whether one argues that man naturally acts in self-interest or that he naturally acts to maintain his status in a social system, the assumption is retained that there is a datum to history, human nature. And if one takes Polanyi's definition of the datum, he is once obliged to explain the manifold changes which have occurred to the institutions of a particular people in historical time, and at the same time to account for the impressive variety in social institutions which becomes obvious when the cultures of different peoples are compared. Neither the historical innovations in culture nor the differences in culture can be accounted for by reference to abstract and timeless constants. And this is to say nothing of the difficulty, in the light of recent investigations, of defining "the nature of human nature" itself. Psychologists have found it increasingly difficult to analyze out learned traits in order to obtain a residuum of "innate" tendencies. About all that can be said is that the formerly impressive apparatus of "propensities," "instincts," and "drives" has quite disintegrated as a means for the explanation of the behavior of men in actual historical situations.

It may be contended, therefore, that uniformities in human behavior can

only be discovered by the study of the actual behavior of men in historical time, and not by the traditional procedure of "peeling away" learned traits, by abstraction, in order to find simple principles intuitively known to be true constants. Only in this way can empirical knowledge be gained of modalities (institutional resistances to change) and of the conditions of innovation in institutions. These observations are equally applicable to Dr. Polanyi and Adam Smith.

The upshot of Polanyi's inverse normalization is to turn the classical constructs upside down. The result is a new concept of economic and social rationality. It is rational for the state to intervene in every department of the individual's life. It is rational for men to ally themselves with "like members" in groups, and through such groups to press for exclusive advantages. As Veblen would have said, "This is as it should be." On the other hand, it is irrational to recommend free markets, free private enterprise—the "simple and obvious system of natural liberty." Such views can only rest upon the denial of the reality of society itself.

In this manner, classical English liberalism gives way to a continental theory of Statecraft and an accompanying sociological doctrine. Viewed in the large, the conflict between these two modes of thought acutely expresses the division in ideas which now prevails in the United States, in the conflict over the relation of the state to economic life. It may be remarked in passing that the ideas of Interventionism were introduced to the social disciplines in the United States largely by scholars who undertook their graduate studies in Germany, in the second half of the nineteenth century.

Having rejected the classical system of thought, Dr. Polanyi finds himself obliged to account for its favorable reception and undoubted success in the nineteenth century. Once more the discussion is confined largely to England, possibly because *laissez-faire* never enjoyed equivalent acceptance in Germany and other parts of the Continent. The author views the eighty years which followed 1834 as a period of peace, expanding markets, active capital accumulation, and a rising standard of life. He accounts for these matters by contending that there then obtained a unique combination of historical circumstances: the self-regulating market, the gold standard, the *laissez-faire* state, and above all the peace interest of an expanding business civilization. The practical pacifism of business was given political expression by Metternich's arrangements in 1820, and by the later Concert of Europe. Lenin to the contrary, capital was bound to lose in a general war in Europe, and so confined major military operations to the conquest of colonial areas.

Why, then, did 1914 occur? Because, it is asserted, colonial rivalries intensified after 1900, dividing Europe into armed camps. In addition, further interventions into the market process rendered the system increasingly unworkable. Among these influences are mentioned tariffs, trade unionism, social legislation, monetary experiments, and monopoly groupings of business interests. Intervention tends to become cumulative, as the older free system bogs down in increased difficulties; hence the period from 1914 has involved the half-conscious "great transformation" of liberal society.

The persistence of the classical doctrines, as a theory of policy, in the

disorganized twenties and thirties, rendered a frank facing of the actual difficulties impossible, and left governments with inconsistent and badly formulated programs. In this context of intellectual confusion and continuing disorder, fascism became possible, the author says, as a spurious doctrine of order and stability. On the other hand, the classical liberals continued to give utterance, like the Scholastics of another age, to sterile but dogmatic formulas. Each new piece of intervention was interpreted as part of a grand collectivist conspiracy. Yet, Polanyi believes, interventions by the state or directly by private groups seeking special protections have never proceeded from a common ideology. They are to be interpreted as pragmatic responses to particular historical situations (the doctrine that ideas are plans of action formulated solely as responses to given stimuli, a quite erroneous view in the opinion of the reviewer). The classical liberals have always erred in railing against an imagined conspiracy of agrarians, protectionist manufacturers and trade unionists. So too have the Marxists made the mistake of identifying measures of intervention with the promotion of the interests of the dominant class. Acually, Polanyi contends, classes are not primarily economic but social. They are themselves the derivative products of a social structure which undergoes historical changes. Classes may be the carriers of such processes of change, but they are not causal factors in history.

Both the classical liberals and the (classical) Marxists wrongly, Polanyi argues, look askance at most of the activities of groups and classes. Such ideologues proceed from a selfish theory of human nature, are inclined to view special protective measures as irrational in the large, and are unable to recognize that groups and classes can and do take a "community view."

Perhaps they do, in some cases, and the author has at least given such activities a rather neat sociological justification which in some respects constitutes an improvement upon Machiavelli's selfish theory of human nature. But Machiavelli also studied history and his conclusions arose more from describing men as he actually found them (and not idealizing them) than from a conscious effort to "de-spiritualize" human beings. The present difficulties, in reconciling interest-groupings with the "community interest" in stabilizing the price system, hardly lends comfort to an unrestrained optimism of the sort Polanyi conveys.

Criticism of a book of this character must necessarily be limited. The work offers an interesting interpretation of the economic history of England and an intriguing critique of classical economic liberalism. As a contribution to the problems of economic policy in the present and for the calculable future, it offers scarcely more than an appeal for tolerance toward interventionism, and a disparagement of objections to such policies where founded upon liberal concepts of the state or consideration of the economics of relative cost and substitution.

The aim, apparently, is to restate the case for intervention in order to make professionals more receptive to the economic actions of autonomous economic groups and the political state. This suggests that a stable social order can only come from more intervention, and that it must come with such intervention. Now this is an assumption which can be made, and with force; but

it remains an hypothesis. The history of countless states and their failures in the past offers no more warrant for optimism in this quarter than for the confident naturalism of the Classical School. Until we know more about the factors in historical changes, we shall remain in the dark, with either policy.

In his denial of the possibility of making the classical separation between the economic and the social order, the author accomplishes a shift of emphasis which serves the dual purpose of an attack on economic liberalism and a defense of intervention in its manifold forms. It should be pointed out, however, that the Classical School itself was genuinely devoted to the maintenance of the social institutions to which it was devoted. Social stability in some context is the actual objective of all schools in the social sciences, notwithstanding verbal enthusiasm for Progress. And this objective is a response to the very real yearnings of Western man himself.

On the other hand, when the problem of policy is limited to this conception, sight is lost of the economic side of the matter. There *is* a problem of resource allocation and there *is* a problem of resource utilization. The solution which one recommends for these complex problems of a collective economic existence will determine, if it does not proceed from, the scheme of social and political institutions which the policy-maker wishes to make permanent. This is not to say that society is "nothing but" a scheme for efficient economic production. We suffer from an excess of such implicit theorizing today. But it is to contend that the economic side of the matter is not to be dismissed as an obsolete remnant of classical doctrine. As a matter of fact, the enthusiasm of the author for groups, the state, and intervention in general might well be tempered with a consideration of the economic factor.

Another consequence of Polanyi's position is the suggestion that freedom may be an illusion, that increased "integration" of man in "society" is in prospect, and that freedom may be a temptation to destroy society itself. These rather vague generalizations can provide justification for virtually any brand of political absolutism. Nor has the author considered that if unlimited "sovereignty" is to be conferred upon private economic groups to pursue (their) "social protection," the result can well be a condition of disorder which directly invites a totalitarian state. In the first place, the democratic theory rests upon the sound premise that minority groups have obligations and responsibilities to the majority, as well as rights for the orderly pursuit of private advantages. In the second place, consideration ought to be given, in a book of this character, to the assumptions and implications of political totalitaranism. Unless history is viewed as necessary grinding out an inexorable trend, men do have a choice in these matters. The civilization of Western Europe involves more than a system of impersonal markets. What are the effects upon the life of the single individual and his social existence if the state is given complete centralized power to make economic decisions? The principles in the American Bill of Rights involve something else than a guarantee of free private enterprise. What happens to these principles when a small group is entrusted, in its wisdom and without responsibility to a free ballot, to *control* change and to *administer* social order by the police power? These are more than matters of the free exercise of the acquisitive principle,

and they are more tangible than an "illusion" when one compares the political experiments of the past thirty years.

A final observation may be made about the author's interpretation of the nineteenth century. Stress is placed upon the driving stimulus of the free market. Matters would, in my judgment, have been made more concrete by reference to the secular stimulus of a high rate of capital formation. Traditionally, this has been the driving force of the capitalistic system, offsetting over the long run the over-savings tendency. The explanation of the phenomenal capital development of the nineteenth century is to be found in an interdependent combination of four stimuli: territorial growth, the discovery and utilization of new natural resources, the increase of population (about 2.5 times in Europe from 1800 to 1914), and technological change. This lay back of the successful filling of the vents offered by free markets.

The book is excellent in its examination of the classical doctrines and in the author's assessment of the historical significance of Speenhamland. It offers an engaging reinterpretation of Interventionism, and an admirably sympathetic effort to evaluate past measures of social protection that economists have been too ready to dismiss on highly theoretical grounds. For these reasons, the book should be given an important place in the reading of all students of policy problems.

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Planning for Jobs. Edited by LYLE FITCH and HORACE TAYLOR. (Philadelphia: Blakiston. 1946. Pp. x, 463. $3.75.)

In the years immediately preceding World War II, it was becoming increasingly clear that a radical reordering of the workings of our economy was necessary if we were finally to pull out of the chronic depression then plaguing this country, and if we were to avoid falling into such a depression in the future. Over a period of well-nigh ten years we had tried now this and now that measure to raise production and employment to normal levels, only to slide back into the quicksand of a new depression. We were obviously failing to get down to root causes.

The demands of war gave rise to full capacity production and full employment, but quite clearly did not eliminate the problem left unsolved when the war began. When peace came, the country would still need to find an answer to the question of how to operate the economy so as to provide continuous *peacetime* employment for all Americans able and willing to work for a living.

In the winter of 1943-1944, this question was dramatically put before the American public when the Pabst Brewing Company offered $50,000 in prizes for the seventeen "best and most practical solutions to the broad problems of postwar employment in the United States." The contest aroused nation-wide interest. Nearly 36,000 Americans submitted plans. Men and women of all walks of life, including about 5,000 from the armed forces, participated.

The great variety of American thinking on so vital a question as post-war employment, which this nation-wide response undoubtedly reflected, was not

however, made available to the public at the time. Only the 17 winning plans were published[1] and none of the supporting material.

The volume under review aims to fill that gap. Professors Fitch and Taylor have edited and annotated approximately 200 of the proposals, selected to represent as many points of view as possible, "especially in the case of controversial questions." The excerpts included in the publication were taken from both plans and supporting materials of over 160 entrants, including seven of the prize winners. The editors have thus enabled us to examine and evaluate not only considerable amounts of supporting material, none of which was published before, but also a much larger sample of the plans.

In addition to these excerpts, the editors present a tabulation of the opinions of over 9,000 of the contestants on a number of selected aspects of the employment questions.

As would be expected, the variety and diversity of the proposals are almost bewildering. They run the gamut from the highly ingenious and complex plan of a Washington, D.C., economist to maintain full employment through a system of forward agreements between government and prospective purchasers, and the simple, unicellular proposal of a Manpower Commission director from Nebraska for weed eradication, as a way out of depressions. If it were not for the logical grouping of the selections by the editors, and their terse and lucid summations and annotations, it would not be possible to see the forest for the trees. With the editors as expert guides, one emerges with a more or less clearly defined pattern of American thinking on the question of post-war employment, as it was put down on paper in the Winter of 1943-44.

In general, the 200 proposals reproduced here do not differ greatly from the proposals of the 17 winning essays. Essentially, they merely constitute a larger variety of themes which derive from three basic assumptions that run through all the 36,000 plans, the 17 included.[2] All but a few of the authors who expressed themselves clearly on the subject would have government lead us out of depressions and create conditions for full employment. Of those who look to the government as that instrumentality, the majority would have it exercise these functions through its taxing power or through investment aids and monetary reforms. A basic assumption running through all the plans is that "practical solutions" of the unemployment problem can be effected within the framework of an economic system of free private enterprise without seriously compromising existing prerogatives which are exercised in the control of that system.

The result, in general, is a superficial evaluation of the causes of economic crises and of possible measures for their eradication. Most of the plans, at best, are ameliorative, rather than preventive. Many become seriously involved in self-contradiction, and still others would lead to the perpetuation, if not the aggravation, of the causes that make for crises.

[1] They were published in the Summer of 1944 by the Pabst Brewing Company as a pamphlet entitled, *The Winning Plans in the Pabst Postwar Employment Awards.*

[2] An excellent summary of the 17 winning essays was published in the *American Economic Review* by E. B. Smulyan in March, 1945. (See Volume XXXV, No. 1, pp. 120-127.)

Most of the authors who expect the government to save us from our folly seem to conceive of government as some kind of supernational being, possessing unique powers and qualities to sustain the economy—rather than as one of the many institutions created by the economy, and living within and sustained by it. For government to be able to exercise powers toward eliminating depression unemployment, the economy itself must first be so reoriented that depressions become impossible. Without provision for such reorientation, the plans remain sterile, can do no more than attack symptoms, and create a *deus ex machina* to do the attacking.

A few of the plans, the reviewer's among them, go so far as proposing a rechannelizing of the nation's income, so that less would flow into savings and more into consumer purchasing power, as a means of assuring full peacetime employment. That would be accomplished through reducing taxes on consumption and increasing taxes on personal income, and/or through increasing wages and lowering prices commensurate with increased productivity of industry. Some of these plans would vary the tax burdens between different income classes as required by the swings of the business cycle.

But most of the authors deny the need of any basic changes in the economy and many assume the certainty of peacetime full employment if only the government "create a favorable environment" for business (a new catchword in economic theory). By "favorable environment," or favorable business "climate" as some prefer to phrase the new slogan, they mean that the government provide "incentives" to business and remove its "restraints." Among specific "incentives," they would have the government reduce the corporation income tax, lower tax rates on the higher income brackets, abolish the excess profits tax—just as it was before we were catapulted into the abyss in 1929-32.

Implicit in most of the plans, but explicit in quite a few, is the acceptance of the inevitability of business cycles. *When the depression* comes, these authors seem to say, do this or do that to ameliorate its effects. The Washington, D.C., economist[3] who proposes to stabilize business through the plan involving a system of forward agreements with prospective purchasers, includes a provision for "Slack Period Reserve Agreements." It is even more explicitly stated in the very comprehensive plan of a Princeton University economist which provides for both monetary stabilization and guaranteed markets for industrial output as a means of assuring post-war employment. "*Whenever depression threatened,*" he states, "there would be a ready market." And again, "*on the appearance of the depression* the Corporation will take over. . . . The Corporation's purchases are conditional on the undertaking of the manufacturer to repossess the goods, *as soon as private demand revives*. . . ." (All italics are the reviewer's.)

The attempt to find ways of controlling the business cycle, yet operate within it, leads many of the authors into curious *culs-de-sac*. An economics professor from Washington, D.C., in a "one-sentence" plan would have "Uncle Sam" buy up all consumer goods which the normal market will not

[3] This is the manner in which the editors identify the authors of the excerpts cited; an appendix lists their names.

absorb, and dispose of the surplus "by holding it as a temporary stockpile... or by distributing it to domestic welfare agencies for sale at a discount; or by selling it to foreign governments; or for that matter, by giving it to the Chinese as a means of advertising American goods"! It never seems to occur to the author that his surplus disposal schemes would undermine the very market his plan aimed to sustain. And "Uncle Sam" would be left holding the bag.

The essays were short essays and one could not, therefore, reasonably expect that the authors could give a complete or rounded view of their thought. The impression left in the mind is not, however, a very satisfactory one. It reminds one a little too much of the six blind men of Indostan who went to "see" an elephant.

JOSEPH M. GILLMAN

Washington, D.C.

Problems of the Postwar World. Edited by THOMAS T. C. MCCORMICK. (New York: McGraw-Hill. 1945. Pp. viii, 526. $3.75.)

Most of the contributors to this symposium are faculty members of the Division of Social Studies, University of Wisconsin. The volume thus represents the thinking on post-war problems by a substantial number of the social scientists at one of our better known universities. The book, which is divided into three parts, covers a wide range of broad subjects in the general fields of economics, government, and international relations. It is addressed to the "educated and thoughtful layman."

Part I is entitled Economic Policy. Walter A. Morton's paper on Income and Employment discusses, in the space of thirty pages, reconversion, income and employment levels, causes of fluctuations, consumption, savings, private and public investment, monopoly and price policy, the national debt, fiscal policy and full employment, and economic maturity or excessive savings. Perhaps because of the numerous topics covered in so short a space the chapter presents little description, explanation or analysis. It lacks integration and is replete with unsupported generalized conclusions. This essay will contribute little to the layman's understanding of the problem. Selig Perlman's and William H. Knowles's chapter on American Unionism in the Postwar World is also disappointing. It is questionable whether this contribution will aid the layman in understanding labor problems or assist him in evaluating and selecting sound labor policies or electing public officials who will resolve labor problems most satisfactorily. The reader is entitled to expect a far more enlightening discussion from one of the nation's outstanding authorities on this subject.

Elizabeth Brandeis has contributed a refreshing and provocative paper on social security. Whether or not one endorses the author's approval of the "Wisconsin Plan" and "merit rating," one must respect her originality of ideas and clear, logical and objective presentation. Asher Hobson has written a creditable chapter on post-war problems and planning in agriculture. The author has included considerable historical and some analytical material on

government participation in agricultural affairs. In a chapter on post-war problems and policies much of the historical information might preferably have been omitted and the space devoted to current agricultural questions and suggested solutions.

Harold M. Groves's chapter on Taxation After the War is primarily a condensation of *Production, Jobs and Taxes,* which he prepared for the Committee for Economic Development, and *Federal, State and Local Government Fiscal Relations* (S. Doc. No. 93, 1943) in the preparation of which he was Chief of Staff. Paul T. Ellsworth has done a workmanlike job on the Bases of Economic Foreign Policy. The many interdependent problems are clearly stated, the space allowed each is well balanced, and the reasoning is cogent.

Part II is entitled Government and Society. In the paper on the Planning Process in Government, John M. Gaus discusses the meaning, difficulty, and importance of planning. He defines planning as "a process of preparing wiser decisions." David Fellman, writing on Post-war American Federalism points out that the relationship between the federal and state governments is an integral part of our constitutional system; and the problems growing out of it cannot be settled with finality because economic and political development continuously create new sets of issues. Lorentz H. Adolfson discusses problems, trends, and the future of local government. In a paper on Post-war Education, Matthew H. Willing describes pre-war trends in education and the effect of the war upon the schools. He concludes with a discussion on education in the post-war period in which he predicts a great demand for economic, scientific and technical training. There is little or no discussion of adult education or school finance. The editor of the volume, Thomas T. C. McCormick, is also the author of a thoughtful chapter on the Negro. Important as this subject is, its inclusion with essays on planning, government and education seems out of place. Since the plan of the volume is to cover a wide range of problems, it might have been desirable to have included at this point a few papers on important "war-created" problems; *e.g.*, price control, housing and veteran benefits, which continue in the post-war period.

Part III deals with International Relations. Harold W. Stoke contributes a challenging paper on the New Nationalism in which he maintains that the interests and forces making for strong national states overwhelm the interests and forces making for collective security. For this reason and in order for this government to fulfill its commitments the author advocates the maintenance of a large peacetime military and naval force and the conservation of our natural resources. Pitman B. Potter's provocative article on The League, a League, or What? indicates certain essentials necessary for the effective international coöperation. He believes that the failure of the League of Nations was due chiefly to its members' failure to make use of it. He concludes with a convincing plea for an effective world organization.

The remaining papers, which are not of primary concern to economists, may be merely listed: American-British Relations by H. Donaldson Jordon; Russian-American Relations by Selig Perlman; The Peoples of Germany by Howard Becker; Germany on the Eve of Occupation by Hans H. Gerth; The

United States and the Far East After the War by Frederic A. Ogg; The Pattern of Postwar Pan-America by Russell H. Fitzgibbon; and Canada: Good Neighbor to the North by H. Gordon Skilling.

The reviewer concurs with the obvious belief of the editor and the contributors that, in order for democracy to function effectively, intelligent and thoughtful laymen should be informed on current problems. A vehicle for attaining this end is the symposium. In order for the symposium method to be *effective*, however, at least two criteria should be met: (1) it should be limited to one field or, at the most, a few closely related fields, and (2) the editor should integrate the contributions. The present volume fails to meet either criterion.

Donald Sham

Washington, D.C.

Statistical Methods; Econometrics; Economic Mathematics; Accounting

Monthly Digest of Statistics, No. 1 (January 1946). Compiled by the Central Statistical Office, United Kingdom. (London: His Majesty's Stationery Office. 1946. 2*s* 6*d* net. Annual Subscription £1 12*s* 6*d* net, including postage.)

Definition of Items and Units in the Monthly Digest of Statistics. Prepared by the Central Statistical Office, United Kingdom. (London: His Majesty's Stationery Office. 1946. 6*d*.)

This newly published bulletin of 108 tables contains statistical series which before the war either were not available or were not brought together in a single publication and which during the war were available only in the secret *Statistical Digest, Series B*. Many of the series are given in less detail than in other publications, particularly the *Board of Trade Journal*, the *Ministry of Labour Gazette*, and the *Trade Accounts*, but in general further statistical reference to such publications will be unnecessary in the future. Most of the series in this first issue, which was released early in February, 1946, run through November, 1945, and some series are complete for 1945.

The most notable additions are series, recently compiled by the Ministry of Labor and National Service, showing the distribution of total manpower in Great Britain, the average weekly earnings in certain industries, and the average weekly hours worked. The working population in November, 1945, is shown as 21,134,000, compared with the latest revised figure for June, 1939, of 19,750,000. Actually these figures are not for "total manpower" since they exclude male workers over 64, female workers over 59, and private domestic servants of all ages. (Workers in Northern Ireland are excluded by definition.) Women in part-time paid employment, estimated at 730,000 in September, 1945, are counted as 365,000. By November, 1945, about

40 per cent of the 2,160,000 women who had joined the labor force between June, 1939, and June, 1943, had retired. It is likely that the labor force will be further reduced by about 1,000,000 during the next year as more women drop out and fewer youngsters seek work after the school-leaving age is raised to 15 in April, 1947. If further account is taken of the past transfer of workers from unrecorded private domestic employment to recorded other employment, it is apparent that the working population in June, 1947, will be very little different from that in June, 1939. Moreover, the employed civilian labor force is also likely to be about the same since the increase in the armed forces compared with 1939 will be about equal to the decrease in unemployment.

The average weekly hours worked in October, 1938, were 47.7 for men aged 21 and over; in July, 1943, 52.9; in January, 1945, 49.4. It is probable that the work week will be further reduced by mid-1947 to the pre-war level, if it has not already been so reduced. Thus, the total hours of civilian work in Britain in 1947 will be very much the same as immediately before the war. Weekly earnings, based on returns covering nearly 6 million employees, are shown to have increased 76 per cent between October, 1938, and January, 1946.

By paging through this rich compilation of statistical data, one can learn more in an hour about the pattern of the British economy and the recent changes, than it is possible to learn from reams of descriptive material. The figures are engrossing. They reflect not only industrial effort but also changes in consumption, the extent of crowding in public conveyances, and the degree of "make do." The average Britisher aged 16 and over drank 31 gallons of beer in 1944, compared with 24 in 1938, but the total alcoholic content was less; the consumption of spirits declined 15-20 per cent, and the consumption of tobacco per person rose about 15 per cent. The consumption of newsprint fell 80 per cent between 1938 and 1942. Of the 31.7 million acres of agricultural land, 12.9 million were cultivated in 1938 and 18.8 million were in permanent grass; in 1945, 19.2 million were cultivated and only 11.8 million were in permanent grass. The number of cattle increased 6 or 7 per cent, whereas the number of sheep, pigs, and poultry declined markedly during the war.

The monthly figures for 1946 will show the pattern and pace of reconversion. More data are now available on building activity, coal mining, exports, etc., than were heretofore available and these data will be the subject of monthly comment in Parliament and in the press.

The principal gaps in British statistics, which one wishes could be filled, are a series showing monthly income payments and an index of over-all productive activity. Perhaps even more basic is the need for data on capital expenditures.

It is to be hoped that publication of the Board of Trade's *Statistical Abstract*, suspended since 1938, will soon be resumed, as a supplement to the *Monthly Digest of Statistics.*

PHILIP S. BROWN

Washington, D.C.

Business Cycles and Fluctuations

Financing Full Employment. By JOHN PHILIP WERNETTE. (Cambridge: Harvard Univ. Press. 1945. Pp. 126. $2.00.)

Looking beyond the current reconversion and "catching-up" phase to that longer period when our central economic problem will again be that of maintaining an adequate demand for output, this little book presents "a positive program to achieve full employment and prosperity with a minimum of government regulation." Wernette wants to preserve the system of free enterprise and to avoid a government-controlled economy. He insists, however, that these objectives can not be attained in the absence of positive government actions to maintain the effective demand for output at such a level as to make full employment profitable. "The entire purpose of the program is to keep private enterprise from collapsing in some great future depression; to keep private enterprise alive by underwriting a big market for the goods and services which private business can produce" (p. 10).

To accomplish this purpose, the government will have to incur deficits during slack periods, and deficits will probably show a secular tendency to exceed surpluses. Wernette favors deficits whenever they are necessary to stimulate employment, but he is opposed to financing them by enlarging the national debt, for he considers the national debt to be a real burden in the sense that it discourages employment. In the first place, a huge debt is a "psychological" deterrent to enterprise; ". . . most persons seem to believe that it is a burden, and they worry about it" (p. 14). In the second place, the collection of taxes for servicing the debt discourages investment and employment. For these reasons, he would reduce rather than increase the national debt and would finance deficits incurred to stimulate employment through the issue of new money. "The basic fiscal policy is sound; but the deficits should not be financed by increasing the debt (which is a burden) but by creating new money (which would be a stimulating factor)" (p. 16). Essentially, therefore, this program would maintain full employment through appropriate monetary management.

Wernette rejects the traditional "gold and banking" monetary system as a vehicle for management, pointing out that it has not in the past succeeded in adjusting money supplies to the requirements of full employment and that there is little reason to expect greater success from it in the future. He would replace it with a fully-managed monetary system, which he calls the Full Employment Standard. The managing body would be a newly created Federal Stabilization Board, which "would be a kind of outgrowth and magnification of the present Federal Reserve Board of Governors. It would take over the powers and duties of the Reserve Board, and acquire some new ones. The Board would be assisted by a Federal Stabilization Advisory Committee, composed of representatives of the executive and legislative branches of the government" (p. 30).

The guiding principle of the Full Employment Standard is indicated by its name. Abandoning all reference to gold or silver, the FSB would issue or

withdraw money in the quantities necessary to maintain full and stable employment. "The technical apparatus for creating and paying out the money increments would be simple. The Board would create monetary certificates and deposit them in the Federal Reserve Banks for the account of the United States Treasury. These amounts would be added to whatever deposit credit the Treasury had at the moment. The Treasury would not differentiate between the dollars added to its bank accounts and those obtained from any other source; but would merely draw checks in the usual fashion" (p. 68). It would spend the newly-created money into circulation (1) to meet deficits caused automatically by any slump in tax base; (2) to finance public works, and (3) to retire debt. Necessary reductions of the money supply would be effected through Treasury surpluses and the usual instruments of credit control. Wernette appears to be less certain as to whether 100 per cent reserve banks should be substituted for the existing fractional reserve system. However, after admitting that the operation of the Full Employment Standard would be complicated somewhat by fractional reserve banking, he concludes that, "for the present, at least, it would be unwise to adopt the 100 per cent bank reserve plan. Let the banks continue to operate just as they have in the past" (p. 76).

Though the Full Employment Standard is the mainstay of Wernette's program, he does not consider it a cure-all, and calls upon government, business and labor for appropriate supplementary policies.

One of the most interesting features of this book is its author's optimism for America if full employment is maintained. He believes that with sustained prosperity our population, wealth and income will rise to such levels that by 1980 a money supply of 363 billion dollars will be required to maintain a price level approximating that of 1940. Thus, the government will have to issue large amounts of new money during future periods to prevent deflation. This is not true, of course, of the present period.

Wernette's primary purpose in this book was not to enter into an elaborate analysis of business cycles, but to present in popular style a program for action together with the principal reasons for it. In this he has been very successful. The style is simple and clear, and the book is interesting throughout. The reasoning behind the plan is essentially sound. Certainly monetary management has never had an adequate trial; we have been too much obsessed with questions of gold and silver and other monetary forms. It seems high time that we relegated these forms to a secondary position and concentrated our efforts on attaining what should be the prime objective of monetary policy—the maintenance of an appropriate flow of money spendings. It would indeed be a tragedy if we dismissed monetary policy as ineffectual because of the the failure of our half-hearted and frequently misdirected attempts in the past. Wernette brings out this fact very well. He also performs a service by insisting on the necessity of coördinating monetary, fiscal and other governmental policies, though I doubt that an advisory committee of the type suggested would be adequate for the purpose.

I question, however, three of the book's contentions. In the first place, I

suspect that its estimate as to the required supply of money during the next 35 years is somewhat high. Its analysis of population growth appears to stress economic factors too much, the predicted increase of wealth and income is quite large, and the demand for money to hold as a percentage of national income seems high. In the second place, the extent of government intervention in economic life is underestimated to the extent that the "stagnation school" is right. If despite low interest rates, private outlets for investment are far below the volume of savings at full employment, the government may have to spend large amounts as entrepreneur. And in the third place, I doubt the wisdom of retaining private fractional reserve banks under the Full Employment Standard. To the extent that private banks created money on the basis of their added reserves, the plan would not succeed in reducing the national debt. Moreover, with fractional reserve banking the FSB would lose accuracy in its control of the money supply. None of these criticisms reduces the validity of Wernette's central thesis, however.

LESTER V. CHANDLER

Amherst College

Public Finance; Fiscal Policy; Taxation

The Incidence of Excess Profits Taxation. By MARION HAMILTON GILLIM. (New York: Columbia Univ. Press. 1945. Pp. 179. $2.75.)

Although the federal excess profits tax has been repealed, there is a genuine need for this study of the incidence and economic effects of excess profits taxation. During the recent war about one-fifth of federal receipts were derived from this source. It was also used extensively during the First World War. However, except for an essay by the late Professor David Friday, the author of the present work was unable to find any study devoted exclusively to the incidence of an excess profits tax.

Since the base of an excess profits tax is the amount of net income over an assumed or legally defined normal, Professor Gillim begins with the incidence of a general income tax. Chapter 1 contains an excellent though brief summary of prevailing theories for and against the shifting of such a tax. A majority of students of public finance have held with Seligman the traditional view that a general tax on net profits cannot be shifted. Even in a period of rapidly rising prices it would be invalid to argue that the tax was a causal factor. This theory of incidence needs to be examined in the light of criticisms of recent writers, particularly De Viti de Marco and Duncan Black. De Viti held that the orthodox theory of shifting was deficient because of its neglect of demand. He concluded that the "introduction of a tax always gives rise to phenomena of shifting." Duncan Black accords high praise to the contributions of De Viti, but believes that he in turn neglected the supply schedule of the factors of production. The true theory of incidence, he thinks, can be found only by a recognition of the "reactions" of taxation on the forces of both demand and supply.

Professor Gillim shows that the development of opposing conclusions regarding the incidence of a general income tax has arisen, first, from varying treatments of demand and of the effects on demand of government expenditures. The Colwyn Committee in its Report in 1927, though mainly following the traditional approach, called attention to possible changes in price by forces from the demand side. Perhaps it should be noted that, when this Report was written, the newer developments in the relation of demand to price in the field of monopolistic competition were just beginning. Another reason for the contradictory theories lies in the definition of incidence itself. The author does not agree with the Colwyn Committee in holding that incidence "is only concerned with the question on whom the more immediate burden of the tax as a tax rests." On the other hand, she does not include with Black certain broad and highly remote effects of a tax in the very long run (p. 64). Possible effects not involving price changes are also excluded.

The author has thus taken a commendable position between a narrowly rigid definition and one so broad as to remove boundary lines altogether. Certainly the reviewer would not, with Black, follow the late Professor Cannan in urging that the term "incidence" be cast overboard and "only the effects of taxation spoken about in the theory of Public Finance." Even though it may not be possible to draw a line with scientific precision between incidence and economic effects, it is desirable to retain the use of the term "incidence" in order to give a sharper perspective to the analysis.

Professor Gillim states certain reasons why the excess profits tax is a special case in income taxation and why its incidence is worthy of separate study. In the first place, the tax is measured against some pre-determined normal income. Clearly it is not possible to devise a method of ascertaining with complete accuracy the normal profit of all corporations. Some inequities are bound to occur and these will affect the distribution of capital among enterprises. The relative position among firms is disturbed and there is a strong incentive to evasion as well as to shifting. In the second place the tax has been used primarily as a war measure. As such it is likely to be regarded as a temporary device rather than as a permanent part of the tax structure. In this circumstance firms may establish different policies in respect to output, costs and prices. This might also be true of other forms of income taxation, but the excess profits tax is "more exclusively a war tax." A third factor to be reckoned with is the rate of the tax. The excess profits tax is an added burden to the existing corporate tax system and thus may well give rise to an increasing effort to shift the tax.

Incidence is considered first under conditions of pure competition. Here excess profits might exist as a result of temporary disequilibrium. Some firms will experience profits in excess of a normal return as defined by statute. The statutory normal is a constant figure and must be compared not only with actual profits but also with profits as a theoretical normal over the long run. There will be more or less variation between statutory normal profits and the theoretical normal required to maintain capital and management in a business. Over a long period changes will occur in the demand or cost functions. The conclusion is reached that in the market and short periods the tax

will not be shifted except possibly in industries where production may be postponed because of a depletion of resources. If shifting should occur in the long run, it will be the result of some imperfection which causes the tax to fall upon profits that are truly normal.

Much the longest chapter of the book is that devoted to the treatment of incidence of an excess profits tax under monopolistic competition and monopoly. Here statutory excess profits may appear not only because of imperfections in definition of the base period, but also as a result of changes in demand, variation in the margin between cost and selling price, change in the general price level, etc. The author analyzes the incidence of a general excess profits tax as a permanent tax and as a temporary measure for three periods of time—the market, the short run and the long period. Assumptions are made in respect to proportional and progressive rates. It is of special importance to note the logical effect of a tax with a proportional rate of 100 per cent or with rates which are steeply progressive to that point. The removal of the profit motive will result in a loss of incentive by the taxpayer and create indifference toward costs, good-will of customers and policies designed to effect economies. A similar conclusion was reached by Hicks, Hicks and Rostas in their recent study of the excess profits tax in Great Britain, as follows: "As has already been pointed out, the really dangerous thing about a 100 per cent tax is not so much that it provides no incentive to make profits, but rather that there is no adequate inducement to avoid losses."[1] Moult also finds that an excess profits tax which operates at the 100 per cent rate interferes with the entrepreneur's principal motivating force and "tends to increase both the real and monetary costs of production."[2]

The author has demonstrated with much effectiveness that under conditions of monopoly and monopolistic competition some shifting of an excess profits tax will almost inevitably take place. This will be true in the market or short period and will probably occur in the long run. The position held by traditional theory that shifting under the assumed conditions is impossible becomes invalidated unless the excess profits tax is general, permanent, does not influence demand and does not alter total investment. Certain other assumptions of greater or less importance must be made. Thus the statute under which the excess profits tax is imposed must be drawn and administered with a perfection that is seldom if ever attained. For the incidence of the tax to remain wholly on the recipient of excess profits, one must assume a conjuncture of circumstances that could scarcely be proved to exist in a dynamic world. The final conclusion of the author is that some of the forces set in motion by the tax are in the direction of higher prices, while others move toward lower prices, and the "net effect of an excess profits tax is not ascertainable."

The book is an excellent contribution to the recent studies of incidence and to the body of literature on tax theory. Professor Gillim modestly states that a serious limitation is the hypothetical nature of the analysis and the absence

[1] Hicks, Hicks, and Rostas, *The Taxation of War Wealth* (Oxford Univ. Press, 1941), p. 101.

[2] Frank G. Moult, *The Economic Consequences of the Excess Profits Tax* (Fiscal Press Ltd., 1943), p. 91.

of inductive tests. Yet the study has been written with exceptional insight to the problem of incidence and with remarkable ability to translate the intricacies of the subject into explicit language. It is a worthy addition to the valuable studies on the incidence of income taxation that have appeared in recent years.

TIPTON R. SNAVELY

University of Virginia

Financing Government. By HAROLD M. GROVES. (New York: Holt. 1945. Pp. xv, 653. $4.00.)

This is the first revision of this textbook in public finance. Since the author could not be expected to have changed his basic ideas, attention centers on the revisions made.

In the original edition, public finance was treated under six main divisions, but in the revised edition four divisions were found sufficient. Public borrowing and the problems of the fiscal system as a whole were included under public expenditures. In view of the importance of public borrowing in the newer theories of the ends to be served by such means, this subordination is, in the reviewer's mind, somewhat doubtful.

The chapter on intergovernmental fiscal relations has been almost completely rewritten to take advantage of later research in that field, particularly the Treasury study which Professor Groves directed. Considerable changes were made in the income and estate tax chapters, and throughout the book there is evidence that the material in every chapter was carefully scrutinized before being included in the new edition. Thus in the chapter on shifting and incidence, the section on the processing taxes was omitted and those on the income and profits taxes expanded. The chapter on tax limitation in the original edition was cut to a section in this one. In the treatment of modifications of the property tax, less attention was given to the farmers' tax problem, and a new section on the property tax and municipal revenues was added. Four of the chapters on public expenditures were condensed into one, with the resulting treatment greatly shortened. Furthermore, greater emphasis was thereby given to taxation, a desirable change.

The chapters dealing with the taxation of business, consumption, motor vehicles, polls, and natural resources, and the chapters on nontax revenues, the power to tax, and state and federal aids are, for the most part, the same in this as in the other edition. The changes made were in the main designed to bring the material up to date. More emphasis is given to fiscal policy in relation both to the public debt and to the problem of war finance.

Among the miscellaneous changes are the following: Less reliance is placed on tables. Fifteen tables are used in the revised edition as compared with forty-seven in the old. In the rewriting, somewhat less attention has been given to Wisconsin problems. Most of the selected reading lists at the ends of the chapters have new references added. Some lists have been expanded considerably. The setup of chapter headings and subheadings is more attractive.

M. SLADE KENDRICK

Cornell University

International Trade, Finance and Economic Policy

National Power and the Structure of Foreign Trade. By ALBERT O. HIRSCHMAN. (Berkeley and Los Angeles: Univ. of California Press. 1945. Pp. xiv, 170. $3.00.)

Dr. Hirschman defines his purpose in this volume as "a systematic exposition of the question of why and how foreign trade might become or might consciously and efficiently be used as an instrument of national power policy" (p. 12). By "national power" the author means "power of coercion which one nation may bring to bear upon other nations" (p. 13). The approach to this exposition is through theoretical analysis, supplemented by historical references and three statistical studies.

Except for noting briefly that foreign trade has its "supply effect" on military potential, the analysis is entirely devoted to the "influence effect"—the direct source of power which resides in the ability of one nation to interrupt its trade with another and thus to inflict or threaten to inflict damage upon that other country as a means of attaining national ends. Elaborate analysis is scarcely required to demonstrate that such a condition of influence and dependence can exist, and has existed, under certain conditions. Dr. Hirschman's theoretical section may, therefore, be regarded as an analysis of what these conditions are, or, alternatively, as prescriptions of techniques for a nation which desires to manipulate its trade relations for power purposes.

The prescription is essentially this: find countries whose trade is small in comparison to your own, whose trade you can monopolize in large part, and who would have great difficulties of economic adjustment if their trade were to be cut off, and you can acquire a large measure of influence over the economic, political and strategic policies of those countries. It is not even necessary to monopolize all trade; if certain groups in these countries would be especially hard-hit by interruption of trade, these groups may become "a sort of 'commercial fifth column' " on your behalf. Since, however, alternative markets and sources of supply, even though less advantageous, will usually exist for these dependent countries in the real world, special measures can be taken which will make it difficult for them to shift away from you: *e.g.*, take their products well above world prices, induce them to shift to production in which they have no comparative advantage *vis-à-vis* the rest of the world, use predatory dumping, handle their transit trade, etc. Prevent them from switching sources of their imports by a policy of bilateralism and blocked payments. A passive balance of trade with these countries may not always be an indispensable condition, but it is extraordinarily helpful.

This is not only abstract analysis; it is, as Dr. Hirschman records, an outline of the high-spots of German commercial policy, especially toward southeastern Europe, in the thirties. In lesser degree and less dramatically it has also undoubtedly been used by other countries on occasion. The catalog given in the volume by no means exhausts the available techniques.

The author accepts "the case for free trade, on economic or welfare grounds, . . . [as] . . . unanswerable," but contends that his analysis demonstrates

that "it [free trade] does not have the additional merit of doing away with the political aspect of international economic relations" (p. 76). Without entering into controversy over what the proponents of free trade have or should have claimed on the power aspects of international trade, it may be observed that the one thing which Dr. Hirschman obviously does not demonstrate is what is claimed here. The free trade analysis rested, by definition, on the assumption of an absence of state intervention in the terms, conditions and direction of trade. What the author is concerned with is the danger to vulnerable states, especially if they are small and poor, when a large state departs from this assumption and begins to control trade, and particularly when it takes steps to prevent some trading partner from making alternative adjustments. Furthermore, as he recognizes (p. 27), his analysis depends for the most part upon factors from which the "classical theory" deliberately abstracted, *viz.*, the short-run losses in the reallocation of resources following an interruption of trade.

It is not particularly relevant to the author's main thesis, therefore, to examine numerous points in his treatment of the theory of international trade which tempt critical review. One of the most disconcerting features of the book is that it is frequently difficult to ascertain whether the author attributes alleged assumptions and conclusions to the economic theory of international trade or to the more extravagant claims made in the political debate over the virtues of "free trade" as a form of commercial policy.

It is important, however, for commercial policy to inquire whether dangerous conditions of domination or dependency are typically inherent in all international trade or whether they are only a potential danger which is infrequently exploited and can be policed. Despite some more cautious statements, it is clear from numerous passages that the author concludes that it is the former. ". . . even if war could be eliminated, foreign trade *would* lead to conditions of dependence and influence between nations" (p. 15; my italics). ". . . the contest for more national power permeates trade relations . . ." (p. 40). "The Nazis have done nothing but exploit to the fullest possibilities *inherent* in foreign trade within the traditional framework . . ." (p. 53).

His conclusion for commercial policy is that it will not be sufficient to abolish trade discriminations, quotas, multiple exchange rates, bilateral arrangements, blocked currencies, etc. Large nations tend to account for a larger share of the trade of small nations than they do of other large nations, and the trade of small nations tends to be concentrated both as to markets and products. The mere negative power to stop trade, therefore, is a sufficient instrument of power-policy, and the author fears that where there's a way there's likely to be a will. Nations therefore can be expected to eschew economic nationalism only if the power arising out of international trade is internationalized by effective limitations on national autonomy over the whole field of international economic relations and the establishment of an institutional framework on international or supra-national lines, giving to an international authority not only ultimate supervision over the machinery of international trade, but also the actual provision of several of its most essential mechanisms.

Dr. Hirschman has dealt with a very real phenomenon which, as he observes, often tends to be ignored, if not denied by the defenders of so-called liberal commercial policies. But it is open to question whether he has not in turn greatly overstated the universality of the dangers and unnecessarily rejected less utopian solutions than that which he proposes. In particular, he appears to overestimate the amount of coercion which one state could exert on another through trade relations, in the absence of discriminatory methods of trade control and direct intervention by the state in the direction, volume, and composition of trade and the means of payment. The concentration of trade by countries or by commodities or, in some cases, the mere size of trade between a given pair of countries may indeed enter into the consideration of statesmen in their conduct of foreign relations. But for them to become elements of strong coercion will in most cases require that they be supplemented by the use, or the threat, of more selective techniques. Without these accessories, the power to interrupt trade and payments becomes at best a blunt instrument of influence, and deterrents of a supply and welfare character become greater and more apparent to the country instituting the action. When trade is highly manipulated and closely controlled, on the other hand, "political" considerations are almost certain to enter into many of the decisions of the controllers. In large measure this would still be true if an international authority wielded the power of control.

The moral for commercial policy to be drawn from this volume is that a departure from a non-discriminatory trade régime should be subject to the closest scrutiny for its potential "power" implications as well as on grounds of economic welfare. Beyond that the evidence adduced is less convincing as to the magnitude of the dangers inherent in international trade.

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A Cartel Policy for the United Nations. Edited by CORWIN D. EDWARDS. (New York: Columbia Univ. Press. 1945. Pp. vii, 124. $1.25.)

The five studies contained in this volume were originally presented as lectures at Columbia University in March and April, 1945. They deal with American policy toward international cartels, on the one hand, and with concerted action of the United Nations on business combinations, on the other. One theme runs through all five chapters, namely, that coöperation of private business men on international markets almost invariably results in socially undesirable situations, and that there is little hope that such private coöperation may lead to balanced expansion of trade and employment. All five studies are lucid, stimulating, thought-provoking, and, above all, most timely.

Fritz Machlup's paper on "The Nature of the International Cartel Problem" introduces the volume. He enumerates three considerations which influence cartelists in framing their market policies. They are (1) to keep prices on a level which they can defend as being "fair," and thus try to avoid adverse public criticism; (2) to maintain market policies which will discourage new entrants from widening the market; and (3) to adjust market policies to actual demand situations in order to attract increased new demand as far as

possible. No doubt, these propositions are fundamentally significant for the "nature" of cartels and are a key to the thinking of cartelists.

Professor Machlup defines cartels as "business agreements which have the purpose or effect of reducing or regulating competition." He admits that common usage distinguishes between combines and trusts, on the one hand, and other types (collectives of independent profit-making units), on the other. However, he favors this more inclusive concept. In the opinion of this reviewer, there is a fundamental difference, both in structure and operation, between combinations of the corporate type and collective market controls consisting of independent entrepreneurs. Such a distinction is of capital importance from the point of view of framing international public policies. No doubt, borderline cases sometimes blur this distinction. The legal suppression of cartels accelerates, according to Mr. Machlup, the development of intercorporate combinations.

In the absence of a cartel there would be a greater volume of production, and trade terms would be more favorable to the consumer, according to Mr. Machlup. Also, employment and investment policies would move on socially more desirable lines. The author mentions the following example of signal malinvestment caused by cartel practices. In cartels based on quotas the market shares of the cartel members are frequently determined in proportion to their production capacity. "The greater the stand-by capacity of a cartel member, the better his chances to win a higher quota." This practice, in the experience of Professor Machlup, induces cartel members to "try to prepare for the next renewal of the agreement (and for the next higgling over production quotas) by further increasing their already excessive capacity." This is to say that the principal motivating force for capacity enlargement would be the expectation of a larger quota. It is to be hoped that Professor Machlup will soon publish the empirical material which served as a basis for his example. This reviewer knows of several cases showing that business men exported large quantities of their products at very low prices in order to better claim higher quotas in future cartel negotiations. The problem of malinvestment with reference to competitive and coöperative international markets requires much additional research.

Mr. Machlup sees three alternative avenues practicable in the field of cartel policies. They are: government controlled cartels, uncontrolled cartels, and no cartels at all. He chooses the course of no cartels at all. If the choice has to be made between uncontrolled cartels and those controlled by public agencies, he would choose the former, because of the fact that "free" cartels operate precariously in permanent political and economic insecurity, whereas government regulation confers upon cartels dignity and recognition. The reader will regret that the scope of the study did not permit Mr. Machlup to elaborate on many basic issues raised and answered in his study.

Ben W. Lewis's study is on "The Status of Cartels in Post-War Europe." It is indeed a fascinating subject in view of the rather diversified, unsettled, and unpredicable conditions on that continent. The essay includes an extensive discussion of American policies toward cartels of defeated Germany. In addition, it analyzes the kind of reception American cartel proposals may

expect in post-war Europe. The usefulness of cartels is, in the opinion of Professor Lewis, restricted to serving the purposes of aggressive, dictatorial governments. He considers it impossible to control market coöperation of private entrepreneurs "by processes open to democratic governments." According to the author, "A democratic government which recognizes and accepts cartels cannot decently even be suspicious of their activities. There is much more reason to believe that cartels, once accepted, will take over the government than to believe that a democratic government can recognize and control cartels and remain democratic." Countries like Canada, Belgium, Holland, Sweden, France, Czechoslovakia, Switzerland, the United Kingdom, accepted (or tolerated) cartels before World War II. Although this policy is open to criticism, the idea that the motley agglomerate of cartel organizations (glass, steel, nitrates, ec.) would have been able to operate their respective governments seems to require elucidation.

The idea of cartel-operated governments may refer to fascist tendencies of certain capitalistic organizations, or to the excessive influence of pressure groups. It may be interesting to note that Edward Hallett Carr in a recent publication conceived of the American government as run by "big business." According to Carr, "in the United States 'big business' acquired almost undisputed control of the machinery of government." Whether in democratic countries cartelized entrepreneurs have more reactionary inclinations than those who do not join cartels it would be interesting to ascertain. That great economic power concentrated in private hands—if without efficient control—may endanger democracy is beyond question. Professor Lewis's discussion of English cartel policies is original, realistic and based on historic facts.

Robert P. Terrill's study is entitled "Cartel Policy and International Security." It includes a discussion of whether cartels may be used as an instrument in the maintenance of peace and whether cartels menace national security. Mr. Terrill takes up the attempts of European nations to found international coöperation on government-sponsored organizations of private business. He soundly judges that such policies would lead to disaster rather than to peace. These policies would adversely influence "open door" pledges in respect to international markets.

The author justifiably cautions "against undue emphasis on the specifically German character of international cartels and similar arrangements." He warns against any illusion that the undesirable features of international cartels are permanently suppressed by the mere elimination of German influence. He also calls attention to the dangerous influence of highly nationalistic economic policies supporting all kinds of vested rights in the economic sphere.

In the opinion of Mr. Terrill, restrictive agreements necessarily constitute a disturbing factor in international peace. He thinks that the military security of the United States does not require measures which would prevent a multilateral and non-discriminatory system in economic intercourse.

Theodore J. Kreps discusses "Experience with Unilateral Action toward International Cartels." His essay raises four questions. First, what is the magnitude and character of the power which may unilaterally but successfully achieve control over international cartels? Second, what types of action have

been tried by nations unilaterally in the cartel field? Third, what was the success or failure of such action? Fourth, can unilateral action alone achieve the desired end?

Mr. Kreps minimizes fantastic statements about the large volume of world trade controlled by international cartels. He is right in stating that at least without the tacit tolerance of United States entrepreneurs, very few world cartels could persist. In discussing European cartel policies Professor Kreps does not take into account the unique political circumstances of the inter-war period which exercised paramount effect upon those economic activities. He quotes the movement of German domestic prices on cartellized and free markets without indicating that these figures had a relatively small bearing on the corresponding international prices. Although there is no doubt that German cartels served the nazi war machine, Mr. Kreps's statement "that cartel operators and their adherents provided practically all the collaborators Germany needed to achieve economic and military conquest" undeservedly exonerates non-cartellized industrialists and other individuals.

This reviewer thinks Mr. Kreps's opinion that in the United Kingdom cartel agreements are "by and large voidable and unenforceable" is oversimplified. However, he is right in stating that the lack of tariff protection is in many cases a good remedy against cartel abuses. It also seems somewhat strained to this reviewer to say that "If technology is kept free, the extent to which intercompany competition may remain in any one industry, say copper, becomes secondary." In copper, the friendliness of the "rivalry" among copper producers was of greater significance than collaboration in the field of technology. The competition of other metals, though often emphasized, was of minor importance. However, there are commodities and services whose international markets are decidedly influenced by coöperation in the field of technology.

In the opinion of Mr. Kreps, unilateral action by the United States against cartel abuses will be effective but should be reinforced by multilateral action of the United Nations.

Corwin D. Edwards wrote the concluding chapter on "The Possibilities of an International Policy toward Cartels." This is a realistic appraisal of what can be hoped for in the sphere of concerted international action.

Professor Edwards does not make a distinction between voluntary and compulsory marketing arrangements of entrepreneurs. This terminological simplification leads him to the conclusion that in such states as Belgium, Czechoslovakia, Switzerland, South Africa and Holland, statutes encouraged cartels. However, he properly judges that, even in countries which tolerated cartels, there was no unanimity of opinion or policy as to the best course of action. His statement that "No international cartel is willing to assign to the traders of one country a share of the world market appreciably larger than those traders might be able to command in competition" is generally right.

The most illuminating part of Mr. Edwards's study is the section dealing with the difficulties and prospects of joint international action and his suggestions as to future policy.

In the cartel field, unrestricted competition of ideas is more important and

timely than in any other field of economic discussion. Such rivalry of thought is the prerequisite of the elimination of theological methods of reasoning about cartels which in themselves inadvertently shelter cartel abuses. The volume reviewed here is a useful step in the direction of enlightenment and sound policy determination. Even those who do not agree with all of the book's propositions will read the volume with interest and profit.

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Grundsätze und Methoden zur Ermittlung der richtigen Währungsrelation zum Ausland. By HANS BÖHI. (Berne: Francke. 1944. Pp. 176. Sw. frs. 9.80.)

Kapitalexport und zwischenstaatliche Warenbewegungen. By JÜRG J. SCHWENTER. (Berne: Francke. 1945. Pp. viii, 90.)

These two volumes are a product of recent Swiss thinking on international trade problems shortly before the end of the war. They are concerned with two important aspects of the future international trade problem of Switzerland, namely, the achievement and maintenance of a stable balance of trade after the war, and the possible effects of an export of capital upon the balance of trade.

The first volume falls in two parts, the first dealing with the problem of determining the necessary conditions of price equilibrium in relation to foreign countries and the second with practical methods for determining empirically the respective points of equilibrium and the disturbances of this equilibrium, *i.e.*, the so-called price parities or disparities relative to other countries.

The importance of this problem for the Swiss economy needs hardly to be emphasized. Construction and exports are the two pillars of the Swiss economy. In 1938 Swiss imports, less the cost of imported materials included in exports, amounted to 1,370 million Swiss francs or almost 17 per cent of her national income, and exports amounted to 1,317 million francs. Exports for Switzerland are important not only for her capital formation, but also for achieving greater industrial rationalization and technical progress. The high standard of living which a lively international trade makes possible enables the population to pay the high prices of domestic agricultural products and stimulates the demand for housing. The Swiss export trade is, therefore, the determinant factor in her business cycle and employment policy, and price and cost relations of Swiss export products and those of competing foreign products are of decisive importance.

The analysis in the first part is based on the assumption that in all countries after the war there will be a strong tendency to restore the operation of the price mechanism in international relations as soon as possible while keeping exchange rates relatively stable. Although commitments will have been made for supporting the price of certain domestic products, particularly in agriculture, and although price disparities due to cost of transportation and existing tariffs are likewise taken into account, all other limitations due to exchange controls, quotas, etc., are assumed away.

The first issue raised is whether, as the classical theory has assumed,

there always exists a point of stable equilibrium. The author reviews some of the well-known criticisms which have been levied against the classical theory, such as the unrealistic assumption of stationary conditions, and the disregard for the volume of production which is likely to fluctuate in either direction in the process of achieving equilibrium in the balance of payment. He also notes certain more recent considerations which circumscribe the usefulness of classical theory, such as rigidity of the price and cost structure, the time required for necessary adjustments and structural changes, and the influence of the modern credit system in destroying the responsiveness of the balance of trade to internal price developments.

As a first step in delimiting the applicability of classical analysis, it is therefore necessary to study the conditions under which the balance of trade is positively elastic.[1] This will be the case if the countries have a similar production structure, *i.e.*, if their products compete. If this condition does not prevail and there is no direct competition between the products of two countries, the effect of a change in prices will depend upon the elasticity of demand for the particular commodities. In the case of essential non-competitive commodities, price changes will have little or no effect on demand, and the balance of trade will be negatively elastic, leading to an unstable price relationship with no equilibrating forces within certain limits. These products the author calls monopoly products. The reference is not to private monopolies but to a monopoly position of the country as a whole.

Whether a country has a positively or negatively elastic or a neutral balance of trade will, therefore, depend upon the relative importance in its foreign trade of monopoly and competitive products. Obviously the case of a complete monopoly is a limiting assumption and most finished products will take an intermediate position. The author concludes that countries like Switzerland and Great Britain before the war did not have a strongly positively elastic balance of trade because of the predominance of finished products of special quality. He recognizes, however, that the elasticity was made somewhat more positive by their diversified production and high standards of living which created a demand for luxuries.

The second important element in a study of equilibrium price conditions is the relation of the price structure of the rest of the economy to the export industries. Only if the entire economy of each country is in balance is it possible to determine the conditions for stable price relations between two countries. The reason is that there exist equalizing tendencies within an economy as between the conditions of production of international and "national" commodities. The latter are not subject to the direct influence of international price relationships. They are, however, related to the international goods of the country through internal price relationships and the tendency toward equalizing the cost of production, though with a considerable time lag. The relation between the prices of national goods in two countries depends, therefore, primarily upon the relation of the factors of production

[1] Though the discussion in the following is limited to the balance of trade it is clear that the effect of changes in the other items of the balance of payments are taken into consideration.

in those countries. Actually this is relevant mainly with respect to the productivity of labor, because of the relatively free international movement of capital. This analysis explains also why the price level is generally higher in more developed countries. Since the difference in productivity between developed and undeveloped countries is usually greater for international than for national goods (mostly because of the type of products in which the developed country specializes), this leads to a difference in prices between the national goods of the two countries.

In trying to measure the disturbances of equilibrium between two countries, therefore, the equilibrium of the prices of national goods must also be taken into account. Their importance is due to the fact that they constitute a cost element (*e.g.*, as intermediate goods) in the prices of international goods; they influence the structure of the domestic demand; and they determine the relation of the prices of the factors of production, influencing in particular the movement of labor between domestic and export industries.

Since, as has been noted, there are several determinants, the next question is to determine what indicators are available to measure the extent of the disturbances in equilibrium. One price average would obviously not suffice, since the averaging process will hide underlying disturbances which have different effects on the balance of trade and the production equilibrium within the economy. As an alternative, individual price groups might be compared, distinguishing particularly between rigid and elastic prices. To the latter belong the prices of international goods while national goods and wages fall in the former category. Here two ways of measuring are possible, either a comparison between the most rigid prices of two countries, or the use of the existing internal price disparity between national goods and international goods as an indicator of the external price disparities. This procedure faces two difficulties, however. One is that many international goods are of a monopoly character and therefore not directly under foreign competition; and, secondly, this approach assumes that no price disparities exist in foreign countries. This assumption might be particularly misleading in times of crisis when wages and national prices, although abnormally high, are not higher than foreign wages and prices.

The author therefore suggests the use of wages or cost of living indices as a supplementary basis for comparison. The former is preferable, since the cost of living index would still be influenced by import prices. Wages, on the other hand, are not only the most rigid factor, but they are also the most important cost and income element and the most frequent cause of price disparities.

In the second part of the study the author tries to determine how accurately, on the basis of the previous analysis, actual disturbances can be measured. He also discusses the alternatives of using general price indices or studying price and cost relations in individual industries, and concludes that both methods should supplement each other.

Though the issue of price equilibrium involves a comparison with all other countries taken together, actually only two countries can be compared at one time. Furthermore, significant answers can be obtained only by com-

paring competing countries. The author therefore proposes comparison of Swiss indices with an average of British, American and German indices. For that purpose he discusses the available Swiss indices to determine to what extent they are representative of the prices of Swiss national and international goods and of Swiss wages, and offers suggestions for their improvement. Finally the outlined method is tested by application to the course of Swiss and foreign wages before and after the Swiss devaluation of 1936. Although the Swiss wage index has shown a continuous deterioration since 1931 as compared to American and British wages, the devaluation brought about a significant adjustment between the three. Similarly the considerable internal disparity existing between the wage index, the wholesale index, and the cost of living index was considerably narrowed, attesting the effectiveness of the Swiss devaluation.

Despite the interesting contributions made in this volume, it is not likely to be of great usefulness in giving an answer to the immediate problems facing Switzerland. Its suggestions apply primarily to conditions which may prevail once free international trade is reëstablished, but it does not provide any answers for the interim, and does not indicate the probable effect of the war and its aftermath on the Swiss economy.[2] A major problem of adjustment, however, will be faced precisely during this period and before joining any international monetary organization. Once international agreements prevail, unilateral action by any country will be considerably limited and attention will have to be directed mainly toward internal adjustments rather than international devaluations. Inadequate attention, however, is given by the author to this second problem. He is mainly concerned with relatively short-run problems and adjustments necessary within the *existing* production structure. More fundamental adjustments in the cost and price structure of some economies may be necessary to effect a transition to a stable post-war economy. This volume is the first installment of a comprehensive study of the Institut für Wirtschaftsforschung of the conditions of equilibrium of the economy. It will be interesting to see whether further publications will deal with these aspects.

The second book is a theoretical discussion of the effects of an export of capital on the balance of trade and the economies of the capital exporting and importing countries. In particular the author endeavors to show under which circumstances a capital export is more likely to be carried out through a decrease in imports rather than an increase in exports of the capital exporting country. In the opinion of this reviewer, however, the author has failed to establish either the probability or the relevance of such a situation. Furthermore, it seems clear that the existence of such a situation usually implies that an export surplus has already taken place at an earlier date and the balance of trade was not balanced to begin with.

In analyzing the transfer problem in those cases where the export of capital is not followed immediately by an increased demand for the goods

[2] *Cf.* in this connection the illuminating article by G. Haberler, "The Choice of Exchange Rates after the War," ***Am. Econ. Rev.***, Vol. XXXV, No. 3 (June, 1945).

of the capital exporting country at prevailing prices and exchange rates, the author distinguishes between countries on a gold standard and those on a paper standard. If the currency standard prevailing in both countries is the same, no special transfer problem arises since it will be taken care of by a change in the price level of the two countries or in the exchange ratio between them. A transfer problem of a "higher order" arises, however, according to the author, where only one country is on the gold standard and its price level changes while that of all other countries remains unchanged. In the latter case the transfer will presumably require a longer period of adjustment.

On the whole the discussion tends to be too simplified and schematic, and rather superficial, and the analysis is not pushed far enough. To a considerable extent it goes over familiar ground and fails to add anything significantly new. Many of the assumptions are highly unrealistic and partly contradictory, leading to misleading conclusions. It seems, therefore, doubtful whether the study will contribute anything to the theoretical analysis or provide the answers to questions which the problem of capital exports is likely to pose in the near future.

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Rival Partners: America and Britain in The Postwar World. By KEITH HUTCHISON. (New York: Macmillan. 1946. Pp. ix, 262. $2.00.)

There are few issues fraught with more significance to the entire world than the post-war pattern of economic relationships between the United States and the British Empire. Mr. Hutchison's highly readable book presents in simple terms the salient factors—both economic and political—which are likely to determine that pattern.

Mr. Hutchison devotes the first part of his discussion to a review of the specific problems affecting the United States and British economies, and then proceeds to an analysis of areas of potential conflict and coöperation. In appraising the domestic position, he stresses the war-generated disruption of the individual structure; the depletion of basic raw material resources, such as lead, copper, iron ore, and timber, contrasted with greatly increased manufacturing capacity for such materials as steel and the light metals. In the opinion of this reviewer, he somewhat overemphasizes the immediate dangers of overcapacity in the United States. For example, there is every evidence today that the demand for steel can fully utilize all the output from existing plant facilities for some time to come; certainly our present problem for sheet steel, wire products, and pig iron is one of acute shortage rather than of surplus. The increase in population, the higher level of purchasing power, and the unsatisfied wants of the war period should contribute to making possible relatively full utilization of capacity and manpower for a number of years at least. This does not, of course, preclude the danger of catastrophic collapse at some future date and, as Mr. Hutchison points out, the political climate in this country is not at present favorable to the initiation of positive steps to avert

that collapse with all its inevitable impact upon the economy of the entire world.

In analyzing the British situation, Mr. Hutchison cites the now familiar figures showing how the liquidation of foreign investments during the war has affected the British balance of trade. Prior to 1939, physical exports from the United Kingdom were sufficient to support a little over half of the British imports, with the bulk of the remainder defrayed from return on foreign investments and payment for shipping services. Not only has British investment income been cut approximately in two, but in addition the United Kingdom is confronted with the need for making very substantial payments on foreign debt incurred during the past six years. To bring the position into balance by curtailing imports can only mean a sharp reduction in the British standard of living. Yet the expansion of exports is severely hampered by the relative inefficiency of large segments of British industry and the high costs of basic raw materials, such as coal. Retention and enlargement of the Sterling Area, with all its restrictionist impact upon the flow of world trade, would probably be no more than a temporary palliative which would actually aggravate the underlying problems, but this course is nevertheless attractive to substantial segments of British opinion. The alternative of moving back toward free trade, which Mr. Hutchison refers to as "the path through Bretton Woods," is, of course, far more desirable for the world at large and probably, in the long run, for Britain. It cannot be denied, however, that this latter policy is fraught with hazard to the British economy, particularly in the light of the current trend of American political thinking.

From these not too promising backgrounds, Mr. Hutchison proceeds to his analysis of the future of Anglo-American economic coöperation. During the war, through the mechanism of the Combined Boards, issues involving the distribution of raw materials and productive effort were settled with what must be regarded in retrospect as a high degree of success. However, the Combined Boards had the incalculable advantage of working toward a clearly defined mutual objective and, while conflicts of interest inevitably arose, it was usually possible to subordinate them to the common good. To the post-war world there are no similarly clear guide posts, and areas of clashing interest are rapidly displacing those of mutuality. Combined Committees for a few critical items, such as coal, tin, rubber, leather, and textiles are still functioning, but their problems are multiplying and their effectiveness dwindling as new factors emerge. There is still the broad common goal of general world prosperity which would mean increased markets for all, but this goal is unfortunately too indefinite to provide a solution for problems in which immediate national interests seem paramount. The possibility of handling continuing problems in specific areas, such as cotton, sugar, and rubber, through the mechanism of broad international committees, is far from assured.

Similar problems, points out Mr. Hutchison, arise in the field of transport, both air and maritime. The clearly defined objectives which guided the allocation of these resources during the war are rapidly being replaced by rivalry for post-war economic advantage. As in the case of commodities, compromise

and coöperation are possible, but the path to their attainment is beset with pitfalls. Achievement of a sound basis for the post-war years is dependent upon mutual appreciation of each other's problems, and can only be hampered if either side insists that its position is the only one consonant with international economic welfare.

Mr. Hutchison presents these issues clearly and simply. While the book is addressed principally to a non-technical audience, it would repay reading by many economists who have not made a special study of the problems involved.

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Principios de Economía sobre Estabilización Monetaria. By BRAULIO ALFAGEME. (Madrid: Aguado. 1944. Pp. 212. 20 ptas.)

So few economic studies reach us from Spain that the present volume must be conceded at least a scarcity value in this country. Unfortunately, there is little more to be said in its favor.

Its purpose is to illuminate the discussion of international plans for monetary stabilization by setting forth some of the essential principles of the problem. The first chapter summarizes in these words the static problem, or "essence," of money: "The essence of money is conventional and may be multiple. The precious metals constituted the only essence of a money that circulated for more than two thousand years. The credit mechanism, generally united to State intervention, and in some cases also gold, constitute the multiple essence of present-day money" (p. 30).

The second and third chapters are devoted to the problems of internal and external monetary stability. The second problem, however, largely boils down to the first, since a money with stable domestic purchasing power will also be stable externally, except for exchange variations "of the pendular or seasonal type, due to a lack of synchronization between the import and export curves" (p. 71). These pendular fluctuations are also of short duration, "currently less than a year," while exchange variations "due to inflationary or deflationary phenomena may cover periods of several years" (p. 70).

Fortunately, the prescription against either inflation or deflation is extremely simple. Let all monetary issues obey the simple rules of the "commercial loan" theory and internal stability will be assured automatically. "The money created through the central bank's rediscounts of bills with less than 90 days' maturity, originating in transactions among merchants and industrialists, does not produce either inflation or deflation because the increase of the means of payments has its counterpart in the purchase and sale transactions represented by the commercial documents" (p. 53). The author also quotes with finality in this respect the opinion of various experts, including that of Mr. Quesnay of the Bank of France, that: "A bank of issue should not create money except on the basis of truly economic operations, for the purchase of gold or foreign exchange, and for the discounting of commercial documents which must be limited to three months and provided with three signatures, or two with supplementary guarantee" (p. 94). The magic of

three months and *three* signatures solves all problems of monetary management and guarantees domestic monetary stability.

If these rules are not followed, borrowings from the Fund would be of no avail to cure the disequilibria originating in inflationary policies. The Fund's intervention should be limited to the smoothing out of the seasonal or "pendular" variations mentioned above. In view of the author's bland assertion that all deficits not due to inflationary policies have a maximum span of less than one year, the Fund's task should not be an insuperable one. The Fund's intervention is needed only because of the present maldistribution of gold and of the failure of a previous palliative to this situation, *i.e.*, the gold exchange standard.

Some modern ideas pierce through the fairly musty outline of the book when the rôle of gold in the monetary mechanism is discussed. On the other hand, the author envisages the possibility of a return to partial gold coin circulation and asserts somewhat gratuitously that, as a unit of account, "gold not only has been, but remains impossible to replace" (pp. 61-62). There is, in this connection, a brief, enthusiastic reference to our gold sterilization operations of 1936-37 and to the British Exchange Equalization Account, concluding with the view that "in both examples, the English and the American, one observes the conscious and planned destruction of the power of gold to create money. . . . Since then, even in those countries which call themselves 'off the gold system,' . . . the volume of circulation depends on the will of the Governments, not on the gold reserves. Gold has lost its malefice and has been converted into an innocuous riches . . ." (p. 47). Professor Fisher will also be glad to hear that his "*Stamp Script* . . . and *100% Money* . . . have been the basis of Roosevelt's monetary policy" (p. 85 n.).

The book concludes with a few remarks on Spain's monetary system and gives, in an appendix, a brief analysis of the Keynes plan and a Spanish translation of the Morgenthau plan, in its July 10, 1943, version.

Mr. Alfageme's book is by no means representative of the literature published on the subject in the Spanish language. Latin American readers especially can turn to the excellent selection of translated articles published in recent months by the *Trimestre Económico* of Mexico and to original studies of very high quality by such writers as Emilio G. Barreto, Carlos Lleras Restrepo, Raúl Prebisch, Victor L. Urquidi, the Uruguayan delegation to Bretton Woods, and others.

ROBERT TRIFFIN

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World Politics Faces Economics. By HAROLD D. LASSWELL. A Research Study for the Committee for Econ. Development. (New York: McGraw-Hill. 1945. Pp. x, 108. $1.25.)

The author of this book sets himself the problem of determining what are the appropriate national and international economic policies for the United States to follow on the assumption that the pattern of post-war

world politics will evolve around the United States and Soviet Russia as the two dominant powers. The author quotes with approval the remark of Alexis de Tocqueville over a century ago that "each of them [Russia and the United States] seems marked out by the will of heaven to sway the destinies of half the globe."

According to the author there is no good reason to suppose that a bipolar pattern of world politics is peculiarly unstable, as compared, say, with a unipolar or pluripolar structure of international relations. Our present limited knowledge can only support the conclusion that all known patterns of world politics are unstable, and that "stability depends upon the harmony prevailing among many functions and institutions rather than upon the characteristics of any one political structure."

Under a bipolar structure of world politics, however, two focal points of political stress will be found to have a special significance in the evolution of the power balancing process of the two dominant powers. The first of these is the "enormous premium" put by the bipolar system upon the ideological integration of states, because even where natural resources and technology are approximately equal, the fighting potential of states can be limited from within by playing upon racial, religious, and economic cleavages. The second point is that the course of development in the small and middle states between the two dominant powers will have a large effect on world security. They can be areas of workable coöperation between the dominant powers; or they can be an unstable no-man's land in which the policies and actions of the dominant powers or their nationals incite to feelings of suspicion and insecurity.

International politics and national economic policy are interrelated and profoundly affect each other. In the past, wars may often have stimulated the expansion of commerce and industry on a private enterprise basis, but this has ceased to be true with the advent of total war. Small wars, or cheap wars, are things of the past. In the future all clashes, however small in origin, are likely to involve everyone and to be world-wide in their ultimate effects upon the world's power system. If war prevails, or even if the expectation of violence is prominent, private enterprise will be curbed and progressively discarded. The attainment of the ideals of high levels of employment, well-being, and freedom, requires a world frame-work of security and mutual confidence in the desirability and possibility of peace, abundance, and self-respect.

On the other hand, the behavior of national economic systems may, in turn, create world insecurity and foster international distrust and friction. The American economy, in particular, is a source of erratic change and its impact upon the rest of the world may stir profound social unrest and sharpen feelings of international insecurity. Within limits, however, it may be possible to keep the United States economy from operating in this way and thus remove one prominent source of world insecurity. An important part of Mr. Lasswell's book is devoted to examining the requirements of such a policy ("preventive politics").

The American economy is described as an "export-surplus economy"—

dynamic, changeable and expansive in its leading characteristics. The author expects that in the future we will continue to trade and invest in all directions without territorial limitations. He considers, but ultimately rejects, the idea that we should consciously pursue a policy of autarchy, even on an expanded territorial basis, such as all or part of the Western hemisphere, or various territorial combinations embracing Atlantic and Pacific areas. The problem then remains how to reduce any possible deleterious consequences of such a policy from the point of view of national and world security.

Two general recommendations are made. The first of these is that we should seek to stabilize our national economic life and thereby reduce the insecurities and frustrations engendered by the erratic performance of the American economy. This proposition is not further developed by the author, presumably because its desirability is generally recognized, even apart from the benefits in international security.

The second recommendation is that the United States should aim in its external economic relations at promoting "balanced industrialization" abroad. On this point the book becomes quite detailed and specific. By "balanced industrialization" is meant a process whereby the benefits of industrialization will, from the outset, be widely shared among the population affected, in contrast to "unbalanced industrialization" in which a privileged few are permitted to aggrandize themselves without substantially improving the status of the rest of the community. Balanced industrialization will promote the development of a middle class, hold social discriminations to a minimum and result in the growth of a relatively unified and free society imbued with an ideology of individualism.

Unbalanced or predatory industrialization, on the other hand, will jeopardize our friendly relations with Russia and enhance international insecurity. In this case the social unrest of the masses of the people—unavoidable to a certain extent under the most favorable conditions of industrialization—will cause the ruling class to live in fear of revolution and to look with hostility upon Soviet Russia as a source of danger in inciting its masses. Russia, in turn, will react to the existence of such governments with an increased sense of insecurity and will feel itself being encircled. It will seek to restore the balance by active propaganda and diplomatic measures to widen the gap between such hostile governments and their own peoples and play upon all grievances of a racial, colonial, and economic character. Under such conditions China, India, Japan, and Near East and other territories will become breeding grounds of friction and suspicion in Soviet-American relations. Moreover, as long as Russian suspicions of encirclement are fed by economic developments of the type described above, there will be small chance for success in loosening the grip of totalitarian controls within Russia and in strengthening its democratic and pluralizing tendencies.

The specific principles and methods to be followed in promoting balanced, rather than unbalanced, industrialization abroad, are spelled out in a separate chapter. Various suggestions by the author will be familiar to those specially interested in the future course of American foreign investments, and space limitation precludes any detailed analysis of his recommendations. The

primary value of Mr. Lasswell's contribution lies in the skill with which he relates his projected program for trade and investment to the requirements of the prospective framework of international politics. His list of principles and methods furnishes an interesting check list against the policies now evolving in Washington in the field of international economics.

The book is written in a rather unusual form, consisting of a series of propositions with explanatory comments and analysis. The material is for the most part tightly packed together and repays close study and re-reading. Not the least attractive aspect of the author's recommendations is that they make good sense even without taking account of the contribution they might make to better Russo-American relations.

MAX GIDEONSE

Rutgers University

Public Control of Business; Public Administration; National Defense

Big Democracy. By PAUL H. APPLEBY. (New York: Knopf. 1945. Pp. ix, 197. $2.75.)

What kind of decisions can an agency head make? Why are there so many clearances required in a government agency? Why don't officials draft the letters they sign? These are some of the questions that concern Paul H. Appleby in *Big Democracy*. To a fellow bureaucrat, the answers are not new, yet illuminating. It is revealing to follow a carefully worked-out exposition of the corporate nature of departmental decisions and to see the implicit assumptions on which most government work moves forward made articulate and coherent. For example: Because a Cabinet member's decisions are not personal, he cannot act as he would in deciding a personal matter, and his department must so function that the issues and recommendations presented to him are in themselves the result of corporate rather than of individual action. Hence, the inability and refusal of any successful agency head to make decisions offhand as matters chance to come to him from persons from outside his agency—hence, the need for careful and consistent internal clearance.

All this—and much more—is, as I have said, not new to fellow laborers in the vineyard though its elucidation is not common; but it is difficult for them to say how astonishing these conclusions will be to the lay public. The book is an answer, and a solid answer, to many of the current myths about the nature of government operations. It boldly defends the necessity for red tape. It flatly denies—with reasons—the charge that bureaucrats are power-hungry. How convincing these answers will be to the general public, I, for one, do not know, and particularly so because *Big Democracy* tends to assume that the myths arise and flourish from mere ignorance and naïveté.

Actually in an important way, the myths, however naïve in origin, are fostered with care by persons who believe or feel that derogation of the federal government is profitable to themselves, directly or indirectly.

In one other respect, *Big Democracy* presents a problem to the reader. It hesitates in its approach; at times it seems to aim at a college audience eager for numbered categories adaptable to easy note-taking, while elsewhere it addresses itself to the general reader, curious about how his government works, and willing to follow a consecutive development of the theme.

I have no wish to deprive another future group of college students of another lecture series in which Mr. Appleby gives them a sense of the reality of the problems they study. But I can express the hope that his next book is less closely tied to the classroom and more exclusively aimed at that oddly large group who have never studied political economy nor worked for the government.

On pages 160 to 163 of *Big Democracy*, Mr. Appleby quotes at length from an admirable speech of Speaker Rayburn on the functions of the Congress. It is a speech that would promptly be attacked as revolutionary if made by almost anyone but the Speaker of the House. There—I suggest—is an appropriate theme for the next epistle, and few men in or out of the government are in a better position than Mr. Appleby to treat the theme with the understanding it deserves.

HAROLD STEIN

Washington, D.C.

Industrial Organization; Price and Production Policies; Business Methods

The Economics of the Pacific Coast Petroleum Industry. Part 2. *Price Behavior and Competition.* By JOE S. BAIN. (Berkeley and Los Angeles: Univ. of California Press. 1945. Pp. xv, 438. $6.00.)

Part 1 of Professor Bain's study on Market Structure appeared in 1944, and Part 2, as summarized by the author, "deals with the measurement and evaluation of price results throughout the industry; the history of competition and cooperation; and the connections among price results, competition, and market structure." While there is an introductory story of the earlier years of the California oil industry, the study is devoted almost entirely to the period 1929 to 1940; and this period is divided into the depression period from 1929 to 1933, the "controlled" recovery period of the N.R.A. from 1933 to 1935, and the period of general but not steady recovery from 1935 to 1940.

It is difficult to summarize the complex mass of facts and conclusions presented here, but, following the author's outline, we may begin with the crude market. In this market in 1940 there were seven "major" producing companies, and 1226 "minor" companies, each group producing about 50 per cent of the crude oil. The majors refined their own crude and bought 60 to 65

per cent of the crude sold by the minors, the rest going to some 60 independent refiners and skimming plants, or into export markets. During most of the period outlined there was excess production of crude, which the majors tried in various ways to curtail, most of the time under federal supervision, represented by the N.R.A., the Federal Oil Conservation Board and the Bureau of Mines. Crude prices, as set by the Standard Oil Company, in a scheme of price leadership which the other majors followed, were maintained at a level higher than in other oil producing areas, but not high enough to permit imports from the flush Texas production.

According to the author, the majors wanted high crude prices because they made most of their profits in crude production. This is, of course, at variance with major policies in many producing fields, for the majors who buy some of their oil from independents, are not usually accused of wanting to pay too much. Since the majors are everywhere integrated, the imputed price of their own crude would appear to be a matter of indifference to them, while they would profit from buying the minor production as cheaply as possible. At any rate, Professor Bain finds the California majors making most of their profits in production, whereas the T.N.E.C. figures for the country as a whole reveal modest earnings in crude production, with much higher earnings in refining and transportation.

Transportation is less important in California than in other fields; yet, since most of the tankers and nearly all the longer pipe lines are owned and controlled by the majors, and are operated as private carriers, they buttress the power of the majors. Non-integrated refiners must be near producing fields. There are complicated relationships among the Los Angeles, San Francisco and San Joaquin Valley markets, but Los Angeles is generally the basing point for both crude and refined products, and in the Valley and Coastal areas the majors constitute a buyers' oligopoly.

In the wholesale market for refined products, the author finds three types of price discrimination. In the first place, there was discrimination among various refined products not according to cost calculations but according to their demand elasticities. In the second place, in meeting the price competition of minors, the majors sold "third" grade gasoline at price differences which did not match differences in cost. In the third place, the majors, largely the Standard Oil Company, fixed export prices, particularly of Diesel fuel, below the domestic level. With excess production of crude, they used the export market to dispose of the surplus, and so kept the domestic market "stable." In the wholesale market, as in the crude market, there was price leadership, unstable because of intermittent minor competition. Professor Bain finds refinery operations not always profitable, with minor failures common; yet there were some new entries in profitable years. As in industry generally, the major producers have tried to avoid price competition and instead have followed extensive programs of product differentiation.

In the service station business, the majors have resorted to various means to prevent price competition. They have subsidized service stations in various

ways, have encouraged the proliferation of stations in order to increase sales, have set extravagant standards of service and have spent considerable sums advertising their differentiated brands. In all this, however, they merely follow the tradition of most American businesses. The T.N.E.C. found the service station business operated at a heavy loss, and Professor Bain concludes that the Pacific Coast stations at any rate make no profit, and probably suffer net losses. Average gross profits of service stations varied from $147 a month in Washington to $231 in California.

The general picture, then, is one of an oligopoly, the oligopolists keenly aware of rivals' reactions, operating under government supervision in crude production, with several attempts to establish monopoly in the sale of gasoline, one of them organized under the N.R.A. It is a picture of powerful integrated companies, troubled by occasional floods of excess crude at home or in other producing fields, and by the erratic competition of weak and inefficient minor refineries and skimming plants, trying to maintain stability in a rather persistently unstable business. The majors have kept independent jobbers out of the business, but they have followed a "live and let live" policy with respect to minor refiners. Professor Bain summarizes their general behavior as "far from socially reprehensible."

This seems to the reviewer to be a fair judgment. It is perhaps true that in some respects the oil majors are treated with undue leniency in this book. The plea of *nolo contendere* to the antitrust indictment, for instance, leaves a rather strong presumption of guilt; but limiting output and maintaining prices in the oil industry are not necessarily contrary to the public interest. It is the theory of the reviewer that oil production has almost always been too high, and prices too low, to effect due conservation of this irreplaceable resource. In many respects the oil industry is a natural monopoly, and should be recognized as such. A more reprehensible policy has been that of exporting oil at prices below the domestic level, in order to maintain domestic prices. This is not conservation, but is merely imposing on domestic consumers a part of the cost of oil and oil products exported—some of them to Japan. Here a little indignation might have been justified.

One of the valuable services Professor Bain has rendered us is that of presenting the price policies of the California majors as they look to the men in the business, and as they have developed in response to problems actually faced in business. Using the facts presented here, a prosecutor might easily have drawn up a rather extended indictment of the oil majors; but we have many such indictments, and it is well that we have this more sympathetic and understanding analysis. The book might have been condensed considerably without great loss, and it might have been organized to make the conclusions stand out more clearly; but it is a very valuable contribution. In its departure from the traditional anti-monopoly analysis it represents an approach which is needed.

University of Kansas JOHN ISE

Mining; Manufacturing; Construction

American Chemical Industry: A History—1912-1922. By WILLIAMS HAYNES. Vol. II and III. (New York: Nostrand. 1945. Pp. xliii, 440; 606. $8.00 per vol.)

The late Francis P. Garvan, one-time president of the Chemical Foundation, is often credited with the remark that all America got out of World War I was its organic chemical industry. Whether or not one agrees with this view, it would be a mistake to suppose that we did not have a well-established domestic chemical industry in the period just ahead of the First World War. As a matter of fact, the manufacture of chemicals in the United States has developed from roots firmly planted in the earliest commercial enterprises of our colonial days, and that is a story the author proposes to tell in Volume I of this work, as yet unpublished. The thinning ranks of those who participated in the spectacular growth of the industry during World War I, from whom first-hand information could be had, impelled Mr. Haynes to publish first Volumes II and III, covering the period 1912 to 1922. Ultimately, there are to be five volumes of the history in all.

Williams Haynes is well known in the field of chemical economics, and was for many years the publisher of the trade magazine *Chemical Industries.* He is the author of a number of books, mostly in popular vein, such as *The Stone That Burns,* and *This Chemical Age.* The complete history of the events and the possibilities which combined to give chemical independence to this country has never before been written. To recount the growth of the chemical industry is a complicated matter, but the author unravels this difficult story with great skill. He possesses a clear and interesting style, which makes for enjoyable as well as informative reading. While he has written primarily economic and industrial history, due attention is given to concurrent technological advances. At the same time the author achieves in large measure a correlation of the development of chemical manufacturing and merchandising with the economic development of the country, and a setting of the chemical industry against the contemporary political and social background.

Briefly, the plan of the present two volumes is to deal first with the pre-war status of the industry as a whole and the impact of events leading up to our entry into the war. Then each of the important segments of the industry is treated separately, in terms of individual chemical raw materials and products, for the entire period under consideration. The closing chapters again pull the story together by telling the effects of the war on the industry, its relations with the government, and its new importance to the rest of the economy.

The chemical industry is one whose activities are far-flung and complex, but it is neverthless an integrated industry to an extent seldom realized. Its technology undergoes rapid and continuous change, obsolescence and amortization rates are high. The disappearance of an apparently stable source of raw material, or an unanticipated increased consumption of any one product, can dislocate the whole pattern of production. This lesson was

driven home during World War I, and the recent conflict taught it to a new generation all over again.

In 1912, the importance of a strong chemical industry to our economy and national security was not as well understood as it is today. The industry was comparatively small and simple in its organization, most plants being still family-owned. The Underwood Tariff act of 1913, which was based upon Democratic Party principles of a tariff for revenue only, created difficulties for the growing industry because of the uninformed and illogical manner in which it handled chemical rates. Chemical raw materials, previously on the free list, were made dutiable, while at the same time lower rates were provided for imported finished products made from identical raw materials. This handicapped American manufacturers competing with European chemical makers who were commonly organized into cartels, selling syndicates and trusts. The depressing influence of this tariff was virtually nullified by the outbreak of war in Europe ten months after its passage. The tremendous eventual wartime demand for chemicals, of which a curious lack of perception existed in 1914, and the blockade of Germany by the Allies, started the domestic industry on its way to wartime expansion.

The other big difficulty which had confronted the industry was the concentrated efforts of German chemical producers to prevent its growth. Backed by the German government, and by well-organized commercial representatives in this country, the Germans had, both for commercial reasons and in preparation for the coming war, done everything in their power to keep America in a subordinate position chemically. The German potash producers and the dye cartel resorted to every competitive trick—cut prices, commercial bribery, and full-line forcing—to prevent anyone in this country from acquiring practical manufacturing experience or conducting profitable operations. They assisted in obtaining favorable tariffs and in disseminating propaganda that American technologists could never catch up with Germans. The liberal provisions of our patent law permitting claims to chemical compounds were utilized to prevent production in the United States of valuable dyes, drugs and organic chemicals, making our dependence upon Germany complete. The war forced the entry of the United States into organic chemical manufacture, and the subsequent seizure of German patents by the Alien Property Custodian freed us from German domination and laid the foundation of a new industry.

As war drew closer, advocates of preparedness became more vocal; and there began to be official recognition that industrial mobilization would be necessary. A Council of National Defense was set up, and various committees were created. Chemicals played a part in the awakening educational process, but as the author points out, it took an amazing time for the idea of total war to penetrate. For the first time chemicals became news, our shortages of dyes and medicinals, and our dependence upon Chile for nitrates were dramatic lessons of the compelling influence of war upon industry. The War Industries Board was organized under Bernard Baruch, of whom the author is a strong admirer. There are many interesting parallels between the career of the Board and that of the late War Production Board, the type of

problems and the methods used to solve them. To a greater extent than WPB, Baruch depended upon voluntary coöperation of private industry with as few controls as possible, chiefly of raw materials.

The chapters dealing with individual chemicals run the entire gamut of the industry, embracing such basic materials as nitrogen, potash, phosphates, sulfur, coal tar crudes, ferro-alloys, minerals, naval stores, crude drugs, alkalies and acids, pigments and colors, insecticides, alcohol and other solvents, compressed gases, explosives, dyes, medicinals, perfumes, and other organic chemicals. Each of these is really the history of a separate industry, and many make fascinating reading, their interrelationships being well brought out, together with a liberal education in the peculiarities of chemical economics.

When the war ended, the industry was faced with excess capacity and stocks of chemicals. Many war-born companies went out of business. But within a short time, this period of distress gave way before increased demands for chemicals resulting from new industries such as rayon, plastics and lacquers, and from a phenomenon which the author calls the "chemicalization of industry," involving the greater use of chemical methods in older established manufacturing processes. The war also brought changes in the structure of the chemical industry from family to corporate ownership. Methods of sales and distribution underwent a transformation, the old sales agents being replaced by company sales staffs, with emphasis on technical sales service. The value of products of the industry had risen from $117,000,000 in 1910 to $574,141,000 in 1919, and in 1921 was still $390,768,000. No other American industry had grown more rapidly, and its new size and strength gave assurance that the modern American chemical industry had arrived to stay.

Mr. Haynes is objective and fair in his treatment of both government and industry, but understandably leaning somewhat in favor of the latter, of which he is seldom critical. He seems to feel that the government treated the industry harshly after World War I in the matter of contract termination and the disposal of surplus plants and chemicals. He also does not hesitate to point out instances of military shortsightedness in connection with the war effort.

The author's economic philosophy as it is reflected in his narrative appears to be set forth in his chapter on The Industry and The Government, in Volume III. He takes his place with those who advocate free private enterprise, with a minimum of governmental control and interference. His tariff views are those of a strong protectionist rather than a free trader. With some relish, Mr. Haynes cites an article by Dr. Taussig in the *Quarterly Journal of Economics* for November, 1922, in which that eminent economist stated it as his opinion, based on experiences as Chairman of the Tariff Commission, that the coal tar chemical industry did not seem to be adapted to American ways, that the American people probably would do better to turn to other things and get their dyestuffs from Germany, with no substantial tariff. Mr. Haynes believes that the high protective rates of the Fordney-McCumber tariff of 1922 saved the lives of our war-born chemical industries in the face of ruthless German competition.

In describing the post-war trend toward mergers and consolidations within the industry, leading to formation of a few big companies and the disappearance of many small concerns, the author tends to treat these as merely normal business developments, rather than as representing tendencies toward monopolistic concentrations of economic power.

The text does not attempt to tell the story of every chemical enterprise in the United States from 1912 to 1922. The growth of the chief firms, trade associations, and trade publications is traced. The prominent personalities of the industry during that period are pictured in the illustrative plates with which the history is provided in profusion, and their accomplishments are told in the text and in interesting biographical footnotes. At the end of each chapter there is a table of references cited numerically in the preceding pages, and a good bibliography at the end of Volume II. A useful feature is a chemical chronology in Volume II which correlates general business, chemical industrial, technical-scientific, and contemporary political events annually from 1912 to 1922. Each volume includes a series of appendixes containing statistical facts and figures, prices, and miscellaneous documents of biographical and historical interest. The books are remarkably free from errors.

Williams Haynes has made a contribution to American economic history that will stand for a long time. It is to be hoped that the remaining volumes of the history will soon be forthcoming.

Hugo E. Weisberger

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Transportation; Communication; Public Utilities

The Use and Disposition of Ships and Shipyards at the End of World War II: A Report Prepared for the United States Navy Department and the United States Maritime Commission by the Graduate School of Business Administration, Harvard University. (Washington: Government Printing Office. 1945. Pp. xiii, 325.)

Because of its importance in connection with the future national security of the United States, and with the strength and efficiency of the shipping and shipbuilding industries, the method of disposal of the great war-built merchant fleet of this country emerges as a primary post-war consideration. This report, prepared by James W. Culliton, Harvey P. Bishop, James M. Knox, and Paul F. Lawler, of the research staff of the Harvard Business School, after a thorough canvass of the facts and of the opinions of maritime leaders in government and private life, provides the best organized review of the American shipping problem to appear in a long time. Although focusing on the disposal of ships and shipyards, the writers necessarily had to consider to a considerable extent long-run merchant marine policy, and the report therefore has considerable scope. The document has also provided a foundation for the arguments leading up to the Ship Sales act of 1946—the most recent

piece of major shipping legislation in the United States. Although differing in many details, this act follows the Harvard recommendations in broad outline. The report therefore deserves close scrutiny by economists interested in transportation, foreign trade problems, and shipbuilding.

The report endeavors to solve two problems. The first is that of the disposal of the huge merchant fleet now owned by the government as a result of World War II construction. This country built some 6,000 vessels, totalling about 58,000,000 deadweight tons. While many of these ships have been lost or otherwise disposed of, the number of vessels remaining is staggering, and is far in excess of normal American ship requirements. The British and Canadian ship disposal problems are puny by comparison. We are therefore dealing with already created capital resources, and the question becomes how to deal with them to best advantage. The second problem, which is closely related to the first, is that of integrating ship and shipyard disposal with national merchant marine policy as expressed in the Merchant Marine act of 1936. The suggested solutions of these problems in the report are ingenious.

The recommendations depend on certain guiding principles. The national defense argument for shipping, commonly treated as a subordinate matter by most economists, is the core. It is assumed that major wars involving the United States directly or indirectly are a continued possibility. In such wars the requirements for merchant ships will doubtless be enormous. It is noted that, despite the prodigious volume of merchant tonnage built in World War II, which tonnage in 1943 alone exceeded that produced in the United States from 1914 through 1938, the supply of vessels was inadequate to meet all needs, and the shortage at times even threatened the loss of the war. This wartime expansion of shipping and shipbuilding was, furthermore, extremely costly. The problem is therefore to fashion an integrated merchant marine and ship and shipyard disposal policy designed to provide at reasonable cost for the national security over cycles of peace and war.

This report thus clearly recognizes the great dilemma which today faces shipping economists. It is that the gap between national peacetime and wartime ship requirements has now become so great that it is difficult to see how any satisfactory compromise can be found between the positions of those who argue for national maritime industries adequate for defense, and those who are concerned to promote more free international economic relations.

In dealing with ship disposal there appear to be two broad alternatives. The first is to liquidate the surplus over a moderately short period by selling vessels freely at necessarily low prices to all comers, domestic and foreign, for both operation and scrapping. This policy would permit the war-built fleet to serve current world freighting needs to a substantial extent, would lower freight rates, would considerably assist foreign operators in securing tonnage, and would make large-scale ship construction unnecessary for some time. It would be a recognition of the surplus for what it is. On the other hand, it would tend to break down the position of the American chosen instruments, would fail to provide a strategic reserve in the United States, would upset existing

subsidy policies, and, most important of all, would make the attainment of national security more difficult. Such a scheme the authors would reject.

They are indeed quite critical of government policies following World War I. These failed to provide adequately for the transfer of war tonnage to American operators and for the support of such firms. In an appendix, which provides an excellent review of the ship market and ship disposal policy at that time, it is pointed out that vessels were not sold promptly while the market was good; that there was no firm ship sales policy, with the result that buyers were wary; that there was a totally inadequate subsidy policy and little prospect of vessel replacement; and finally that a concept of a strategic reserve was lacking. By 1922 ship prices had fallen to low levels, at which ships were sold sporadically for operation and scrapping. They were to go still lower. The World War I fleet did, indeed, supply a cheap reservoir from which the operators continuously drew vessels, but because of the absence of a strong shipping policy prior to 1936, such sales were merely a means of keeping in operation foreign-trade and coastwise services yearly becoming more obsolete and hopeless. The great World War I fleet was thus frittered away.

The report favors the second alternative, which is the planning of ship and shipyard disposal on the basis of long-run merchant marine policy, coupled with the establishment and sterilization of a large reserve in both industries. With respect to shipping the report proposes measures to reëquip the entire foreign- and domestic-trade merchant fleet with modern, fast, highly-efficient vessels of the standard C4, C3, C2, C1, and Victory types, of which there is an ample supply, and in some cases with special types from new construction. This end is to be accomplished by selling such ships now in the government fleet to American operators at roughly world market prices less depreciation, which world prices are taken to be post-war foreign construction costs, and by maintaining adequate operating differential subsidies. The maintenance of the operating subsidies of the Merchant Marine act of 1936 is considered to be important and to be a cheap means of effectively providing for national security. Gross payments without any allowance for recapture were only $11,000,000 in 1939. Post-war payments are put at from $20,000,000 to $25,000,000, covering from 175 to 200 ships. The necessity is also pointed out of selling ships promptly, of fully establishing the principle of private operation, and of having a firm price and sales formula. Vessels should be offered, first, to United States contract operators; second, to other American owners; third, to the reserve fleet, of which more later; and fourth, to foreign buyers. Interesting calculations of post-war demand are supplied.

The report is thus mainly concerned with the high-quality tonnage. Under favorable conditions American owners might buy nearly all of the vessels of this type available. Liberty ships, of which the writers estimate there will be about 2,400, are believed to be of little peacetime value. They are truly surplus, and should therefore be promptly made available at a low and uniform price to all buyers. T2 tankers should be handled likewise.

A novel feature is the proposal to create promptly two sterilized reserves

as a means of removing surplus vessels from the market and of providing cheaply for national security. The first, the strategic reserve, would consist of about 1,000 ships of assorted types useful in war, these craft to be maintained in good condition. The second, the residual reserve, would contain the remaining unsold ships, which would be kept in reduced maintenance.

This program, now substantially enacted, though with variations, has much to commend it. Capital may be expected to flow with some confidence into private shipping, yet for those vessels to be sold the government will receive a reasonable return. Means of replacement and modernization of such fleets are available under the Merchant Marine act of 1936. The surplus ships, of small value in peace but of great value in war, are to be in large measure preserved.

The shipbuilding program matches that for shipping. *Laissez-faire*, which would soon bring paralysis for some twenty years, must be avoided in the interest of national security. The industry must, therefore, be kept at a suitable level of activity by government aids and subsidies, and by careful disposal of excess plant. Considerable capacity should be kept on a standby basis by means of maintenance contracts with active yards.

There is little doubt that the proposals adequately fulfill the objectives of the authors. They burden foreigners in that the war-built, high-quality ships will appear on the seas under the American flag, rather than under foreign flags, and that the great mass of ships will not be dumped on the world market. The basic interests of American shipping and shipbuilding are in general safeguarded as well as appears possible.

One wonders, however, about the long-run implications. Will the comparative advantage of foreign owners increase as a result of the war, and thus put heavy pressure on American owners? Will there be strong countervailing subsidies and measures? Will the dollar exchange position of many foreign nations permit of large-scale patronage of American shipping? Finally, will not the coming revival of European shipbuilding produce in some ten years a serious oversupply of tonnage? But in this imperfect world the Harvard recommendations have much to commend them.

John G. B. Hutchins

Cornell University

Agriculture; Forestry; Fisheries

Agriculture in an Unstable Economy. By Theodore W. Schultz. A Research Study for the Committee for Econ. Development. (New York: McGraw-Hill. 1945. Pp. xix, 299. $2.75.)

Agriculture has struggled with its problems for more than two decades. The progress that has been made in the realization of their character and the means of solution become apparent when one compares the statements such as the Land-Grant College Committee report of 1927 with the analysis of this book. The earlier report implied we were in a passing stage of diffi-

culties which time would shortly cure. Here, however, is a penetrating analysis with recommendations. It should be required reading for those concerned with public problems. The discussion deals with price and income aspects of agriculture, and as the author distinctly states, not with relief or welfare aspects. It will be criticized for incompleteness by those who place major emphasis upon the latter.

The first part of the book outlines the prospective conditions faced by agriculture. On this the author is frankly pessimistic. Agriculture it is true is booming now, but the difficulties of the 1930's were due to underlying trends and may be expected to return with the decline in war and immediate post-war demands. Part Two develops the dominant factors in the long-run agricultural situation. These are an accelerating expansion of supply and a slowing down in the growth of demand. Add to this difficulty of movement out of agriculture, because of lack of economic opportunities and lack of knowledge, and the stage is set for continuing low income per farmer. A forward surge of farm technology is on and appears to be in its early stages. The result is that even with a greatly reduced number of farmers, we appear able to far exceed our domestic needs in output. This is coupled with the slowing down of the growth of demand. Population is, of course, increasing at a declining rate. What is more important, however, is that farm products have a low income elasticity. Dr. Schultz, after careful study, places it as low as .25 at the farm. Demands as a result will not increase as much as incomes rise and we face a long-run tendency toward excess agricultural output.

The usual cure for economic ills prescribed by the orthodox economist is to free economic forces from their restrictions and allow time for the situation to be rectified. Agriculture, according to Dr. Schultz, seems capable of working out a considerable share of its internal adjustments with reasonable dispatch and we should strive toward facilitating such adjustments. The paralyzing hand of parity prices, for example, should give way to free market prices to permit adjustments in output. The relationship with the remainder of the economy is quite another matter. A vigorous, growing and stable economy would in large part solve the problems of agriculture. Without it, these adjustments will require an unreasonable period of time. If during the first two decades after the war the annual rate of increase of nonagricultural output reaches 4 to 6 per cent, then Dr. Schultz estimates that this growth might make room for an annual expansion of agriculture around 2 per cent. But if business cycles continue, agriculture will continue to face distressing declines in demand during depressions and will need ameliorating measures.

Experience indicates we must expect cyclical fluctuations even if the long-run trend is favorable and depressions are shortened. Freer trade and better international relationships would, of course, improve export markets, but there seems to be no long-run solution to our domestic agricultural problems along these lines. One gathers that the author, while favoring a loosening of the impediments to economic forces which we have constructed, would not place too much reliance on this. In the foreseeable future, more than this is demanded in the way of an agricultural policy.

The author examines our past agricultural programs in his third section.

Thus far the programs have had serious faults. This is so apparent that even the South and the Congress appear to have developed doubts regarding them. Dr. Schultz selects as the two most important of the pre-war administrative techniques the acreage allotments and commodity loans. The attempts to curtail production by acreage reduction did succeed in reducing acreage but not production. They appear to have had no substantial effect on price or income. On the credit side, however, they appear to have contributed to soil conservation and better farming methods. The procedure of tying most of the AAA payments to acreage allotments resulted in the larger farms receiving proportionately larger payments and to some freezing of production patterns.

The commodity loan program seems generally to have erred in a definite drift toward too high loan values and an inflexibility because of the tying of the loan values to parity. Thus far the commodity loan program has not had to face the results to be normally expected from its present mode of operation. The present loan program began with the Commodity Credit Corporation in 1933. This agency in contrast with its ill-fated predecessor, the Federal Farm Board, was favored in its early years with a strong trend of rising prices. By 1940, however, accumulations of stocks had become great enough to presage disaster, but the unprecedented war demands provided a rescue.

The lessening latitude given the administrators in setting the loan rate has been striking. In the AAA act of 1933 the Secretary of Agriculture was given wide latitude in setting the loan rate. The 1938 act specified rates between 52 and 75 per cent of parity. The 1941 legislation made all loans mandatory at 85 per cent of parity. In 1942, the rates became 90 per cent of parity with some limited exceptions and the rates were to extend to the expiration of the two-year period beginning with the end of the January following the close of the war. This record does not discourage the author and he does not believe that the faulty programs of the past means that all government programs are bad. He holds that we may have vigorous and enterprising farms and at the same time equally vigorous if well designed government programs.

The last section of the book is devoted to Dr. Schultz's own program for improving the agricultural situation. To solve underemployment and low earnings in agriculture, it is, of course, necessary to move persons from farms. Things we should not do are fairly clear and include resettlement of veterans extensively on farms and increasing the number of so-called "subsistence farms." Positive measures are less easy to enumerate, but certainly involve the removal of barriers to movement. Monopolies and restrictions to entry in trades should be broken down. Among the positive measures the author makes an interesting suggestion for a National Outlook to serve labor similar to that developed for agriculture. Grants-in-aid for migration and enlarged facilities for training rural youth also appear warranted.

In so far as instability of agricultural income arises within agriculture, the solution seems to be at hand. A crop insurance program and storage of feed grains on public account to stabilize livestock production promises to do a great deal.

Diminishing income instability caused by fluctuations in demand are outside the power of internal adjustment of agricultural affairs. The first line of defense in stabilizing agricultural income would be the stabilization of the whole economy, probably through fiscal-monetary policy. Should this fail, then the author would advocate compensatory payments to farmers during the depression periods as the second line of defense. Farm prices would be left free to seek their own levels and perform their allotted functions with respect to allocating supplies. The author was among the early advocates of this approach to our price problems and has done much to bring about its acceptance as a general principle. These compensatory payments would be made to farmers to sustain their income without interfering with prices and their function. Payments might begin when unemployment or factory payrolls reached a certain level. The author suggests that they be made to provide a price equivalent amounting to about 85 per cent of some pre-depression level. Parity prices would be completely abandoned. Under such a policy the principal production adjustments would flow from relative prices. In addition, however, some aid might be given toward soil conservation, storage of feed crops, improvement of farm practices, improvement of tenure and aids to depressed areas. Adjustment aids are especially essential to the South.

In price policy, Dr. Schultz is the leading exponent of "forward prices" among the agricultural economists. The details of this part of his positive program are not entirely clear. Forward prices are, however, prices announced far enough in advance to enable farmers to develop their next production program in harmony with the announced prices. They should also be prices which will achieve a desired output, presumably desired by governmental experts after review of the prospects for the future. Nearly all agricultural economists will agree with the author that our system of parity and support prices is undesirable and dangerous, but there is a wide divergence of opinion on forward pricing.

WARREN C. WAITE

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Reconstruction of World Agriculture. By KARL BRANDT. (New York: Norton. 1945. Pp. viii, 416. $4.00.)

This book was written during the war, anticipating the task of rebuilding agriculture and reëstablishing a world economy. It was written in the belief that Germany, Italy, and Japan would be defeated, that the post-combat period of disorganization would be brief, that the food relief requirements for Europe would be moderate, that land reforms long overdue in Europe would be undertaken, and that an opportunity would present itself for the restoration of agriculture in a setting of world trade shaped along liberal lines. The book is packed with information, ideas, and insights about agriculture, especially European agriculture.

Dr. Brandt, drawing upon his rich experiences, has allowed himself to range widely. No American has at his fingertips so much detailed knowledge about Europe's land institutions, excess population on farms, the price-

making machinery serving agriculture, the political rôle of farm groups, and the state of the technology in agriculture as has Brandt. P. Lamartine Yates and D. Warriner have focused on the economics of the European peasant. Wilbert E. Moore, in his *Demography of Eastern and Southern Europe*, has given us a much needed analysis of the excess supply of labor on farms in eastern and southern Europe. Brandt, however, seeks a more comprehensive understanding, namely, the rôle of agriculture in a modern world economy. In his explorations he draws not only on his European background but also takes in his stride recent developments in nutrition, the technological advances in farming in countries with a highly developed agriculture, the lessons in food and agriculture drawn from the experiences of World War I, and the basic forces that were shaping world trade during the inter-war years.

Brandt starts with the effects of World War I and then sketches the trends of the twenties in which he includes Hoover's efforts at food relief, the agrarian reforms in eastern Europe, the gradual recovery of agriculture in Europe, the appearance of maladjustments in supply and demand, the decline in farm prices toward the end of the decade and its portent of depression, efforts at farm relief and market monopoly, and the failure of the monopolist approach along with much higher tariffs in the United States and autarchy in Germany. The analysis then shifts to the decade of the thirties, starting with the collapse of the credit structure, the spread of protectionism, the transition in Europe from the failure of peace to the preparation for war, New Deal farm policies, the cartelization of agriculture in Great Britain and Germany, and the added public control of the farm economy in other parts of Europe including the Soviet Union.

The impact of World War II on the food and agricultural economy and the prospects at the end of hostilities is then considered, which sets the stage for estimating the conditions in agriculture during demobilization. Because he expected the food relief requirements for Europe to be moderate, the task of the United Nations Relief and Rehabilitation Administration appeared to him comparatively easy. This discussion ends with the warning that America "... will be rudely shaken by the discovery that European agriculture is very competent and is a serious competitor with American agriculture in European markets." Recovery in agriculture is expected to come quickly; a vigorous, highly productive European agriculture will emerge soon after the end of the war after a brief relief period, as was the case following November, 1918. The outlook in 1946 is indeed not nearly so assuring.

There then follows what is probably the best part of the book, a treatment of the basic controversial issues in formulating a world agricultural policy. We are living in a century when people and governments are concerned about the welfare of farmers; the claims of importing countries for agricultural protectionism and the claims of agricultural exporting companies for special measures to dump and to engage in price discrimination in forcing supplies into export channels have been freely supported. The effects of industrial activity on agricultural progress is touched upon, and the importance of the division of labor between the temperate and tropical zones is stressed.

Brandt then introduces a very provocative topic; collective *versus* individual farming, reviewing very briefly the cultural history that has shaped, first, feudal society and later the small family farms in western Europe. The split in the socialist parties with regard to breaking up rich estates deserves much more attention than he has given it. In fact, this particular topic is of such basic importance that one hopes he will find time to enlarge and to prepare a modest monograph for our professional literature on the size and structure of farm units viewed in terms of the historical stages through which agriculture has passed, the institutions that have become established, and the goals that are appropriate to policy in this sphere. Brandt appears to make altogether too much of the idea that there are many people in farming who are so low in their capacity that large-scale farms are necessary to employ them. Certainly this a very short-run view, for much can be achieved through education, nutrition and other welfare measures to enhance the efficiency of such people and thus enlarge the productive rôle they can play in agriculture and in other occupations. The penetrating comments on agrarian feudalism in Germany, Hungary, Poland, and Spain should be carefully studied by students of political institutions as well as those interested in agriculture.

Brandt then throws his weight for a reconsideration of world trade; freer trade is a basic prerequisite for the reconstruction of agriculture. He conceives this rebuilding in a liberal tradition and relates it to the foundations of political democracy and then turns to the necessity of an expanding economy in order to achieve a redistribution of the labor force to lessen the overpopulation of agriculture. There is also a need for the resumption of efforts for the improvement of nutrition but he holds that the prosperity of the agriculture of the world is dependent primarily upon European political stability and industrial recovery.

Planning with regard to agriculture is viewed by Brandt largely as a threat rather than a promise. Planning takes on all of the adverse political connotations that Hayek has ascribed to it. It "means that all economic affairs are subject to political decisions. . . . Under agricultural planning, as it is executed today, for example in the U.S. . . . it is decided by vote in both houses of Congress. When Congress thus acts it is planning." This book is devoted to policy objectives—policies which will shape the use of resources, the channels of trade, and the functioning of the price system. Such policies, if they are to have expression, must also be decided by vote in both houses of Congress.

One might well wish that this book had been more condensed without losing any of its comprehensiveness, less detailed without losing its rich reality, less descriptive, leaving more room for the formulation of the main issues and analysis. There is also considerable repetition and inclusion of materials that are quite obvious to most readers. These shortcomings are, however, for the reader a small price to pay for the wealth of information and insight that this book encompasses.

THEODORE W. SCHULTZ

The University of Chicago

USDA—Manager of American Agriculture. By FERDIE DEERING. (Norman: Univ. of Oklahoma Press. 1945. Pp. xvi, 213. $2.50.)

The genesis and purpose of Mr. Deering's book is explained in the Preface: "When I became editor of *The Farmer-Stockman* in 1942, I decided that I ought to know how the USDA was organized, how it operated, and what it did. So I started in to learn about it. The farther I went in my research, the less I understood the USDA, eventually arriving at the conclusion that no man living understands the complex setup. The observations contained herein grew out of that conclusion. . . . This book is an appeal for revaluation of our approach to the farm problems so that solutions may be found and for organization of the USDA on that basis" (pp. ix-x).

In the process of ascertaining what is wrong with the U. S. Department of Agriculture, Mr. Deering touches a great number of problems. Chapter 1 contains a generalized account of the activities of the department; criticism of the wartime organization and the 1945 reorganization of Secretary Anderson; plus a proposal for reorganization under three broad functions: (1) administration, (2) research and (3) education and information. Chapter 2 touches on the historical development of the Department and returns to recent organizational defects and the need to remedy them. Chapter 3 discusses the shortcomings of a number of specific programs, and gives special attention to the Agricultural Adjustment Administration and the Commodity Credit Corporation. Chapter 4 describes in rather sketchy fashion the work of the agencies within the Agricultural Research Administration. Chapter 5, entitled The Number One Problem, is devoted entirely to soil conservation. Chapter 6 is directed toward post-war problems, with some discussion of production control, price policy and subsidies. Chapter 7 is devoted entirely to the farm credit problem. Chapter 8 begins with a discussion of the work of the agencies administering the regulatory laws and winds up with a number of proposals for reorganization of the administrative functions of the whole department. Chapter 9 is a catch-all for comments on the department's services in the fields of rural health, housing, electrification, roads, public lands, and coöperative associations. Chapter 10, entitled Education and Information, is another omnibus chapter referring to the work of the Office of Information, the Extension Service, the Bureau of Agricultural Economics, the 4-H Clubs, and agricultural education generally. Chapter 11, entitled The New USDA, returns once more to the theme of general reorganization; while Chapter 12, Tomorrow's Agriculture, contains the author's ideas on a number of problems of economic policy, including production adjustment and prices.

There are a lot of things about the Department of Agriculture that Mr. Deering does not like. He does not like the way it is organized in Washington, where it threshes about "like the proverbial bull in a china shop and then, following the example of the famous knight of literature, leaps on his horse and dashes off in every direction" (pp. 13-14). He does not, for a large number of reasons, like its organization in the field. He does not like what he calls the "dollar-minded" point of view of the department—a tendency "to think of farm production only in terms of statistics and dollars and cents" (p. 122). He does not like the bulk of its activities in the fields of production

and prices. Although he does not specifically charge the department with any substantial abridgement of freedom of action by the individual farmer, there is a tone of apprehension in this regard. The following statement is an example: "The power of directive has been exercised freely in regard to agriculture; and in the hands of unscrupulous or power-hungry officials, the vast powers held by the department could be used to divest farmers of virtually all control over their commodities" (p. 58).

In short, it seems fair to say that Mr. Deering views the Department of Agriculture as a mixture of bad organization, bad administration and bad economics. There can be no doubt that the Department of Agriculture, as well as some other departments of the federal government, has many deficiencies. These are quite generally recognized and are of great concern to all who have considered the problems of government, including a large proportion of the bureaucrats themselves. However, Mr. Deering's book adds but little to our ability to deal with these deficiencies. Instead of following through with an independent and thoughtful analysis of the large amount of material which he has so industriously gathered, he largely confines himself to repeating a lot of generalized criticisms, most of them of the familiar anti-bureaucratic variety. The whole book abounds in statements that one would like to rebut or at least tone down. However, comment will have to be confined to a few selected items.

Mr. Deering argues at the outset that no man living understands the USDA. This statement has considerable truth, but other attempts show that it is possible to come much closer than he. The careful study of John N. Gaus and Leon O. Wolcott, *Public Administration and the United States Department of Agriculture*, published in 1940, is only one example. In this connection, it may be noted that the staff functions of the department, which are so important in obtaining coördination, and were particularly emphasized by these authors, are completely overlooked. Under Deering's reorganization, the staff agencies appear either to be eliminated or consolidated into one of the three super-divisions, with unification within and among them apparently being effected by some sort of magic. Another striking feature is a tendency to regard the department as entirely a service agency for farmers. It is true that this is a large and vital phase of the department's work, but the department is also a public agency and faces the problem of integrating its efforts to aid agriculture with the requirements of the public interest. This important problem gets no attention whatever.

In attempting to understand and appraise operations of the Department of Agriculture, and to produce a brief and readable book, Mr. Deering undertook a most formidable and commendable task. It is regrettable that the readable book which he has written contributes so little toward either an understanding or a solution of the problems to which he addressed himself, particularly in view of the fact that he is in a position to reach and influence a large number of farm people who have a vital stake in the successful operation of the USDA.

J. P. Cavin

Washington, D.C.

Labor and Industrial Relations

Negro Labor: A National Problem. By ROBERT C. WEAVER. (New York: Harcourt Brace. 1946. Pp. xiv, 329. $3.00.)

The subject matter of this volume is the effect of World War II upon the employment opportunities available to Negro workers. To provide the proper background the author sketches briefly the employment history of the Negro worker prior to the defense emergency, showing the racial employment patterns that prevailed and the obstacles that confronted Negroes in their quest for desirable jobs. Under the stress of the defense emergency and then all-out war, the color bar slowly gave way, especially in areas of acute labor shortage, with a long-delayed measure of racial justice a desirable by-product.

As the Office of Production Management official in charge of Negro training and employment, and later as director of Negro Manpower Service for the War Manpower Commission, Dr. Weaver participated actively in governmental efforts to promote effective utilization of Negro labor in war industry. He has brought to this study, along with his excellent background, a wealth of detailed information on Negro employment in a variety of industrial areas. He has not allowed his sympathy for the black worker denied opportunity for employment or advancement by a color occupational system, nor his indignation at the prejudices both of management and white labor, to interfere with an objective analysis of the problem of Negro employment in the war and post-war periods. The careful marshaling of factual material, the dispassionate account of prejudice and injustice, speak with their own eloquence.

World War I gave American Negroes their first opportunity on a large scale to enter industrial employment. Though that period marked a significant gain for colored workers, the occupational color-caste system remained unchanged in that Negroes were still restricted, with rare exceptions, to the unskilled jobs in hot, heavy, and dirty industries. Management thought in terms of Negro jobs and white jobs, white workers feared the Negro as a competitor for a limited volume of employment, and craft unions frequently discriminated against colored workers. Their entrance into certain northern industries via the strikebreaking route further intensified the prejudices of white workers against Negroes.

Between 1940 and 1945, however, and especially after 1942 when acute labor shortages became apparent, changes of tremendous significance occurred. With white workers no longer available, factories hired Negroes for production jobs, and upgraded qualified colored workers from the ranks of the unskilled to semi-skilled and skilled grades. Though they were hampered by inadequate vocational training opportunities, by the fall of 1944 a million and a half Negroes were employed in war industries, about half of them in areas of acute labor stringency. As Negroes moved from rural to industrial areas, from south to north and west, they faced problems of urbanization, overcrowding and housing shortages, and insecurity once peace and reconversion reduced industry's need for them.

The areas and industries that Dr. Weaver considers at greatest length

are Detroit; aircraft throughout the country; and local transportation in Philadelphia, Los Angeles, and Chicago. In some of these cases management insisted upon the color bar, whereas elsewhere management wished to widen employment opportunities for Negroes but was held back by opposition of white employees. In extreme cases, as in Detroit, there were wildcat strikes against the upgrading of Negroes, strikes that the national heads of the union opposed with vigor and effectiveness. In Philadelphia the color issue became involved in a struggle between the CIO and the lineal descendant of a company union, which tied up transportation for almost a week in an effort to prevent the use of Negroes as motormen. Elsewhere the introduction of Negroes into new types of employment proceeded without incident, especially where management planned its actions carefully and the union leadership was sympathetic.

Regardless of how the transition to peacetime employment is handled, the Negro is certain to be among the chief sufferers. Almost half the Negroes in war industries, Dr. Weaver points out, were concentrated in aircraft, shipbuilding, and iron and steel (including ordnance), and large numbers were also employed in the production branches of the armed services and in government-owned plants. These branches of industry will offer relatively little opportunity for post-war employment. In addition, because the Negro was so recent an entrant into many plants his seniority standing is low. Should seniority provisions be modified to give him preferred treatment, the resulting enmity on the part of white workers would lead to a highly dangerous situation, particularly should we enter a period of widespread unemployment.

Though many of the employment gains registered by Negroes during the war will not survive, there will be a substantial residue of progress. In the iron and steel and the automobile industries, for example, the Negro has made numerical and occupational advancement, and in both these industries he exercises an important influence within union ranks. Even in those industries, such as shipbuilding and aircraft, from which the great bulk of Negroes, as of others, will be displaced, skills were acquired which may help colored workers obtain more desirable types of civilian employment.

The volume discusses at some length the formation and activities of the Fair Employment Practices Committee, which provided a mechanism for the processing and adjustment of complaints of discrimination, and which was instrumental in widening employment opportunities for Negroes. Dr. Weaver believes that there is a special need for FEPC in the reconversion period, that state FEPC's should be established for intrastate activities, and that there should be a permanent FEPC not restricted to war industries. He is pessimistic about the prospects for full employment, upon which the economic welfare of all workers, but especially of minority groups, so largely depends, and likewise about the prospects for racial understanding in the post-war period.

The author believes that a permanent FEPC, with powers of enforcement, can do much to sustain the morale of Negroes and their belief in American democracy. Its contribution would be significant, he thinks, if it merely

established equal employment opportunities for Negroes in federal employment and on public-financed construction. In a work-world in which unions are so important, he points out, colored workers must be oriented by the Negro community to understand unions and participate in their activities. Agencies that train and place Negroes must think realistically in terms of the industries, such as construction, in which the post-war demand for labor will increase. The federal government, besides providing for a permanent FEPC, can help best by achieving a smooth and quick reconversion and planning to assure full employment.

Dr. Weaver's volume deserves a wide reading. Its careful marshaling of facts, its competent analysis of complicated problems, and its objective treatment of an issue so highly charged with emotion and prejudice make it an important contribution to the literature on the subject of Negro labor. To some extent the chapter organization might have been improved, to eliminate a tendency toward repetition and to make the book more an integrated whole and less a collection of related essays. This, however, is a relatively minor criticism of an excellent piece of work.

JOEL SEIDMAN

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The Indian Working Class. By RADHAKAMAL MUKERJEE. (Bombay: Hind Kitabs. 1945. Pp. xvii, 336. Rs. 12-8.)

This little volume is deceptively slim, as it contains much more meat than its size might suggest. Professor Mukerjee has produced a thorough technical analysis of the multitude of grievances which beset Indian labor today. His pages are densely packed with illustrative data and with more than a hundred tables, detailing working and living conditions throughout Indian industry.

The presentation is organized by problems, taking up in order those major difficulties which industrial workers experience, from first recruitment or employment, through working conditions, working hours and wages, and standards of living and housing. The ramifications of each problem are thoroughly documented by factual material, both by geographical area and by industry. Special recurring attention is given to employment in coal mines and quarries, in tea gardens, in jute and other textile mills, and in iron and steel fabrication. The final chapters are devoted to more general discussion of India's needs for increased social security, trade unionism, and collective bargaining methods to assure industrial peace. Here, also, the author is quite as much scholar as advocate, tracing carefully the historical background and present status of each problem.

The book does not lend itself to review in the usual sense, as its very inclusiveness makes summary difficult. From his background of thirty-five years' experience with Indian labor problems Professor Mukerjee has reached conclusions as to what should be done about a wide variety of particular sore spots. Among the more important measures advocated are the elimination of the widespread contract system of hiring by middlemen, the in-

creased use of labor exchanges, recognition of changing costs of living in prevailing wages, and gradual establishment of minimum wages and maximum hours of work. In this latter connection, the author presents a great deal of valuable data on Indian standards of living, conveniently compared with those of other lands. One chapter is devoted to the problems of technological advance; and a plea is made for controlled introduction of more efficient processes, with some proportionate share of resulting profits being allocated to labor. An analysis of housing conditions culminates in an advocacy of a large-scale government housing program.

The guiding assumption of the study is that "Indian industry can advance only on the basis of a progressively higher scale of production, wages and standard of living. Industry cannot enjoy peace and prosperity so long as the elementary needs of the worker as a human being, and not merely an instrument of production remain unsatisfied. . . . The foundations of industrial . . . progress accordingly rest on increased efficiency and improved standard of living and social security for the working class and enlarged and adequately distributed purchasing power for the entire population."

The approach is essentially sociological, and reliance is placed upon the sheer impact of factual data, interpreted by common-sense reasoning, to support the various corrective measures indorsed. These generally reflect merely an application to particular Indian conditions of currently prevailing convictions of organized labor and "liberal" labor sociologists of the English-speaking world. It is to be regretted that serious economic analysis of the impacts of such individually "progressive" measures on a semi-competitive economy is so rarely undertaken. On the other hand, it must be conceded that the teeming, unstable complexity that is India hardly seems the simplest economy to which to begin applying such an analysis of repercussions.

The book is to be recommended to serious labor technicians rather than to a more general public. Even professional labor students who are fully conversant with current problems in occidental countries may find it wise to absorb this present volume by installments; for the repeated use of unfamiliar Indian terms and local industrial jargon (frequently unexplained) mark this study as intended primarily for those actively working on day-to-day problems of Indian labor. For such specialists it should prove a mine of information for ready reference, and a useful sociological summary of particular defects in policies and practices which prevail in Indian industry as of the end of the Second World War.

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Seasonal Farm Labor in the United States. By Harry Schwartz. Stud. in hist. of Am. agric., no. 11. (New York: Columbia Univ. Press. 1945. Pp. xii, 172. $2.25.)

This little volume gives an instructive review of the situation faced by seasonal farm laborers on whom producers depend not only for the harvest of fruit crops but also for the production and harvest of many of the truck

crops of the Pacific Coast, the irrigated areas of the Great Plains, the humid acres of the Middle West, and the Atlantic Coast. Special attention is devoted to the problems surrounding the production of sugar beets, a crop which involves two comparatively short seasonal peaks.

Along with his own personal observations, the author gives a commendable review of reports of other investigators who have from time to time studied the problem of migrant seasonal workers. The descriptive matter is well supported with statistical evidence, showing the importance of seasonal labor in agricultural production and the level of earnings achieved by migratory workers in certain typical cases. Many of the earnings data are drawn from years when earnings in other phases of agriculture were likewise modest, so that correctly interpreting this evidence involves taking into account the general economic situation of the period.

The author makes an important point of the significance to the producer of harvest labor cost from a bargaining standpoint. He shows how producers have frequently curtailed the amounts they were willing to pay for labor at harvest time when the price outlook for the product was particularly discouraging. He does not follow this point up with evidence which would indicate whether or not the labor thus bargained for was any more or less profitable than that used at other times when bargaining was not so evident. The general impression given is that the employer has often been guilty of great injustice and unjustified discrimination against seasonal workers. One might reasonably inquire whether the fault lies with the employer or with an economy which requires the incurring of heavy costs in producing a crop the price of which remains an unknown quantity until harvest time and the perishable character of which precludes the possibility of storage and holding for any considerable period of time in anticipation of a more favorable market. Instances are given where producers chose to permit the crop to remain in the field rather than incur further costs in the face of an already impossible market situation. There are enumerated the various support programs which have been afforded producers in the sugar beet industry in particular, and the author wonders why some comparable program could not be forthcoming for the worker. This seems a reasonable question.

Available experiment station studies tend to show that labor earnings of producers in the case of many of these commodities, especially deciduous fruit crops and some truck crops, are, outside of certain large corporate interests, very modest indeed. The grower with his investment and his entire family's time devoted to the project has, on an average, realized little more than a laborer's earnings. For this meager reward these entrepreneurs have had to risk their capital and their year's effort for an uncertain prospect.

In the latter part of this report occurs a statement which indicates possible unfamiliarity with the factors involved in causing employers to adhere to a production program which provides only seasonal employment. The author comments: "Farmers would be hard to convince that it would be to their advantage to employ only certain workers and to modify their farm plan so as to give maximum employment." Difficulties encountered

in developing a farming system which provides year-round employment for workers on truck farms in western New York or strawberry and grape farms in northwest Arkansas are very real.

The author correctly identifies the chief difficulty in the pathway of "decasualization," which is, as he indicates, "the distribution of peak needs and non-peak needs." A more practicable proposal made by the author seems to be that of combining farm and non-farm employment for workers on whom producers of seasonal crops must depend. He indicates further that migration difficulties can be minimized by local urban populations responding to temporary need for additional farm help. He gives considerable attention to accomplishments in this direction in the past three or four years.

Consumers may have become so accustomed to prices for fruits and vegetables which provide very meager returns to both seasonal laborers and their employers that great resistance might be met in attempting to establish prices which would permit paying seasonal workers adequate *annual* incomes for only five to seven months' employment. No doubt the general public would be more interested in efforts to find productive employment for such seasonal workers in non-season periods. Thus the burden of providing adequate annual incomes to seasonal workers would not fall entirely on seasonal crops.

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Human Relations in Industry. By BURLEIGH B. GARDNER. (Chicago: Richard D. Irwin, Inc. 1945. Pp. xi, 307. $3.00.)

This is a significant book for economists specializing in industrial relations and personnel administration; but certain sections of it, particularly the first four chapters, deserve wider reading among economists generally. Professor Gardner's purpose is to provide a systematic presentation of the social structure of industry. He does an able job of describing the various groups and levels in the hierarchy from top management to workers in an enterprise, and he points out with many illustrations the pressures and conflicts that develop between these groups and levels. This view of the industrial organization should be a part of the intellectual equipment of every economist, even though he approaches the study of industry from a different point of view.

The book owes a heavy intellectual debt to the pioneer research studies by members of the Harvard Graduate School of Business Administration at the Hawthorne plant of the Western Electric Company. The author spent five years in charge of employee relations research in connection with the personnel counseling program at Western Electric, and he has drawn heavily on this experience, as well as on *Management and the Worker*.[1] In fact, readers who are familiar with this and other reports of the Hawthorne research will find little that is basically new in the present book. But the

[1] F. J. Roethlisberger and W. J. Dickson, *Management and the Worker*. (Cambridge, Harvard Univ. Press, 1940.)

material, with many new illustrations, is presented more briefly and in a livelier style than has heretofore been available.

It is the author's belief, shared by many others, that because a business firm "is such a closely integrated system of co-operative effort, it is important that everyone concerned with increasing its effectiveness, whether they be executives, personnel people, or supervisors, have an understanding of the nature of such a system and of the problems of maintaining effective co-operation within it."

To provide this understanding, Professor Gardner begins by describing the man-boss relationships that exist in a factory hierarchy, and the importance of status as attached to particular jobs. Then he considers the line of authority from top to bottom, and how, in practice, information is often distorted and filtered and how it moves "by fits and starts." Next, the functions and problems at each level in the hierarchy—foremen, department chiefs, division chiefs, superintendents, and top management—are described. The divisive influences that operate between these levels get particular attention, as do the cleavages between informal groups and between line, staff, and control organizations. There is a particularly interesting discussion of the conflicts between the engineers and the shop and between the accounting or cost control organization and the shop.

In unionized plants, the union is also an integral part of the social structure of the factory, as Professor Gardner points out. His chapter on "The Union: Its Functions and Place in the Structure," however, is rather brief and over-simplified, although suggestive of areas for further study. Some readers will question that "the chief function of the union is to force management to consider the effects of company policies and practices upon the workers" (p. 114). In many firms, unions have gone beyond the "consultation" stage, and actually participate in policy-making and in administering job evaluation, wage incentive systems, etc. Yet the author apparently overlooks the impact of these developments.

There are two chapters on wages, dealing with differentials, merit increase systems, job evaluation, piece rates, and restriction of output. While there are many interesting illustrations, the discussion is on a pretty elementary level, and some of the conclusions reached do not square with experience elsewhere as reported in the specialized literature. In fact, the absence of any references to other studies (in addition to *Management and the Worker*) limits the usefulness of the book except as an introduction to the subject.

In these chapters, as in the earlier ones on the social structure of an industrial organization, the difficulties confronting effective coöperation are stressed. There is an admission that a "sound piece-work system usually does increase efficiency and actually gets more output per man than a straight day-work system," but a discussion of the components of such a system is lacking.

Methods of securing coöperation within an industrial organization are finally presented in the last two chapters of the book. Such procedures as advance explanation and consultation, sympathetic listening, etc., are clearly

helpful, but their value would have been impressed upon the reader more forcibly if they had been offered when the numerous difficulties in the way of securing coöperation were discussed earlier. This was done effectively, for example, in the brief discussion of the human problems resulting from organizational changes (pp. 218-21).

Executives and students of management, to whom the book is primarily addressed on an introductory level, will get a better understanding of the social structure of industry by reading this book, and they will be impressed with the complexity of the problems of getting coöperation between groups and levels in the factory organization. But they are less likely to understand clearly how to handle those problems effectively.

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Consumption: Coöperation

The Co-operative Movement and Present-Day Problems, with Special Reference to Rehabilitation and Reconstruction. (Montreal: Internat. Labour Office. 1945. Pp. 232. 4 shillings.)

This report, it is explained, is mainly documentary; it attempts, not to formulate a plan for the future, but to provide material for the carrying out of such plans as are made. Dealing with the comparatively long-range problems, the report is a companion piece to a previous report, *Co-operative Organizations and Post-war Relief,* which dealt with the immediate post-war problems. It is an appraisal of the coöperative movement throughout the world with respect to (1) restoration of basic economic functions (food and agriculture, transport, power and housing) in the various countries; (2) social problems of rehabilitation, such as employment, improvement of the standard of living, and democratic management of the economy; and (3) conditions and forms of the coöperative contribution to rehabilitation and reconstruction effort.

Though the study is not statistical in nature, it presents summary figures showing the number of coöperative associations in these various fields and in many cases indicates the proportion of national trade accounted for by the coöperatives operating therein. In nearly all the countries of Europe the coöperatives were an important factor in the national economy before the war, and even the German conquerors were forced to make use of them—and in some cases even expand them—in order to keep the productive and distributive system functioning.

The report calls attention to the "practically unlimited variety" of economic and social functions which the coöperatives perform. Among those discussed in Part I are the agricultural supply associations (separate sections being devoted to those handling feeding stuffs and fertilizer, seeds, and farm implements and machinery), livestock-breeding associations, rural credit

associations, and coöperatives marketing specific commodities (grain, livestock and meat, eggs and poultry, dairy products, fruits and vegetables, etc.) in the various countries. The contributions that each of these forms can make toward the rehabilitation of Europe are discussed. The report makes a special plea for the restoration and expansion of the fishery associations—one type of association the product of which constitutes a net addition to much-needed supplies of animal protein, whereas "stock and poultry are in competition for their food with animals and men." As problems of supplying fuel, transportation, power, and housing will be of "tremendous urgency and importance in the immediate postwar period," a chapter is devoted to the development of coöperatives in each of these fields.

Part I thus presents a remarkably able cross section of the coöperative movement, by type of association—a task much more difficult than description country by country. If any criticism can be made, it is that the data, representing as they do in most cases the pre-war situation, are open to the objection that they may no longer picture the actual situation. The writers anticipate such criticism by acknowledging this at the outset and stating their conviction that "it seemed better to have some gaps in a documentation which was otherwise generally sufficient than to have a more perfect documentation too late to be of use."

In many of the German-dominated countries reports indicate that the coöperative movement even expanded during the war, though of course under strict nazi domination and probably with little or no control of policy by the members. It is probable, also, that the original members—especially where they were largely trade unionists and Social Democrats—have been scattered or slain under the German policy of extermination, and the extent of really democratic views among the later members is open to guess only. In these countries there was also widespread destruction of physical plant in the last, desperate stages of the war. In view of all this, rehabilitation of the movement itself must necessarily precede any contribution it can possibly make toward economic rehabilitation of the countries. Reports indicate a surprising degree of coöperative recovery even in the early months after liberation, but the extreme prostration of the economic system in the war-torn countries and the lack of even the most elementary necessities in some cases make the process of reconstruction a long one. As the report frequently points out, the most promising immediate sources of coöperative help are the coöperative movements of the uninvaded countries and that of the United States.

The infinitely greater potential advantages of collective use and action, as compared to individual use and effort, are the ground for the special consideration bespoken for the coöperative movement.

In Part II, which deals with the social problems of rehabilitation, the report discusses the value of various types of coöperatives, such as productive associations (self-help coöperatives among unemployed, workers' productives, and labor-contracting associations) and collective farming and land-leasing associations, as employers of labor. It points out the great stability of employ-

ment in coöperative associations and the little-recognized fact that, even in times of depression when employment in general is falling off, coöperative employment keeps on going up, as a consequence of the coöperatives' greater resistance to economic disturbances. Also, the coöperatives offer some resistance to the "uncompensated disturbances of equilibrium from which the prevalent economic system suffers" in their influence toward price stabilization and more equitable distribution of national income through the mechanism of the patronage return and their influence on "the orientation of the economic process." The private producer and seller, the authors state, has to depend on a problematical market and use his ingenuity to market a product for which a demand may not exist but must be created; the "service" enterprise—the coöperative—is "concerned to satisfy expressed needs." Again, the private producer, being interested in activities yielding the greatest profit, may leave basic needs unsatisfied or insufficiently satisfied, keeping prices high on a market that could otherwise be much wider. The coöperatives' nonprofit operation, which increases the purchasing power of the members, tends to raise their level of living, a tendency which has been furthered by the coöperatives' work for the improvement of quality of goods and the education of their members for better nutrition.

As for the coöperative contribution to a democratic economy, the report notes that, to the extent that the coöperative members exercise their rights and assume their responsibilities, "each coöperative enterprise is a successful democracy in microcosm." The movement is a "breeding ground of administrators of the type which the democratic economy needs," and one of the places where the people's economic will is formed. The coöperators themselves, the report says, view their function as even more fundamental: "They think that there cannot be real reconstruction in general and democratic reconstruction in particular, without a broad and persistent effort of re-education, for the paramount need of democracies is for well-informed and active citizens. They hold that it is within genuine people's institutions, especially within trade-union and coöperative organizations, that habits of passive obedience can be most quickly dissolved and that a sense of democratic discipline and responsibility can be restored."

Part III emphasizes, however, that the importance of the post-war coöperative contribution depends not only on the readiness of the movement to play its part, but also on the degree to which it is asked to participate and "most of all, on the way in which it can be fitted into the general framework of the intervention that the public authorities of most countries will be led to make in the economic field." There are in coöperative history many instances of collaboration between state and coöperatives, by (1) "simple mandate conferred by public authorities on a coöperative or a group of coöperatives; (2) delegation, which establishes a real mutual collaboration" when the public authority entrusts coöperatives with certain functions which it enables or assists them to perform by giving them help of various kinds; (3) association of state and coöperative movement in semi-public joint service enterprises; and (4) integration of coöperatives in public administrations or

joint service enterprises, this differing from (3) in that "the coöperative activity, while remaining independent, is included in a wider system of economic activities."

The report points out that, although the coöperative movement is an instrument standing ready-made and well adapted for immediate use in the work of rehabilitation," its actual use depends on "those who build and can build the coöperative movement; outside coöperative institutions, it depends on the structures, and on the legislative and institutional environment of such institutions, which can help or impede their development and action."

Altogether, the report constitutes a valuable compilation of facts (including some not generally known even to coöperative researchers) and a thoughtful and philosophic evaluation of this people's movement.

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DAVIE, M. R. *What shall we do about immigration?* Pamph. no. 115. (New York: Public Affairs Committee. 1946. Pp. 32. 10c.)

HOEHLER, F. K. *Europe's homeless millions.* Headline ser., no. 54. (New York: For. Pol. Assoc. 1946. Pp. 96. 25c.)

LUCK, J. M. *The war on malnutrition and poverty—the rôle of consumer coöperatives.* (New York: Harper. 1946. Pp. xi, 203. $2.50.)

MOORE, W. E. *Economic demography of eastern and southern Europe.* (Geneva: League of Nations. New York: Internat. Documents Serv., Columbia Univ. Press. 1945. Pp. 299. $3.)

Vital statistics of United States, 1943. Pt. 1. *Natality and mortality data for the United States tabulated by place of occurrence with supplemental tables for Hawaii, Puerto Rico, and the Virgin Islands.* Pt. 2. *Natality and mortality data for the United States, tabulated by place of residence.* (Washington: Bur. of the Census. 1945. Pp. 228; 580. $1.50; $2.50.)

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GURVITCH, G. and MOORE, W. E., editors. *Twentieth century sociology.* (New York: Philosophical Library. 1945. Pp. x, 754. $6.)

SHOUP, E. L. *The government of the American people.* (Boston: Ginn. 1946. Pp. ix, 1206, xli. $4.50.)

The effects of strategic bombing on the German war economy. (Washington: War Dept., Overall Econ. Effects Div., U. S. Strategic Bombing Survey. 1945. Pp. ix, 286. $1.)

Social Science Research Council: annual report, 1944-1945. (New York: Soc. Sci. Research Counc. 1946. Pp. 69.)

A study of business and employment among Negroes in Louisville. By Associates of Louisville Municipal College, and others. (Louisville: [Louisville Municipal Coll.] 1944. Pp. 92.)

United States strategic bombing survey, over-all report (European War), Sept. 30, 1945. War Department. (Washington: Supt. Docs. 1945. Pp. 109. 50c.)

RECENT FRENCH PUBLICATIONS

Editor's Note—Through the kindness of Bertrand Nogaro, professeur à la Faculté de Droit de Paris, we have received the following list of books which he regards as the more important economic works published in France during recent years. A number of the volumes have been received and reviews will appear in early numbers.

Economie Politique

AFTALION, A. *L'oeuvre scientifique.* (Volume collectif.) (Paris: Domat-Montchrestien. 1945.)

ANTONELLI. *L'economie pure du capitalisme.* (Paris: Rivière. 1939.)

NOGARO, B. *Cours d'économie politique.* 2 vols. 3rd ed. (Paris: Domat-Montchrestien.)

——. *Le développement de la pensée économique.* (Paris: Lib. Gen. de Droit et Juris. 1941.)

——. *La méthode de l'économie politique.* (Paris. Lib. Gen. de Droit et Juris. 1939.)

——. *La monnaie et les systèmes monétaires.* (Paris: Lib. Gen. de Droit et Juris. 1945.)

——. *Principes de théorie économique.* (Paris: Lib. Gen. de Droit et Juris. 1941.)

RIST, C. *Précis des mécanismes économiques élémentaires.* (Paris: Sirey. 1945.)

Histoire Economique

LABROUSSE. *La crise économique en France à la fin de l'ancien régime et au début de la Révolution.* (Paris: Presses Univ. de France. 1944.)

SÉE, H. *Histoire économique de la France.* 2 vols. (Paris: Colin, 1939; 1942.)

Statistique

MARCHAL, A. *Economie politique et technique statistique.* (Paris: Lib. Gen. de Droit et Juris. 1945.)

Finances

BRIÈM ET BISSON. *Finances publiques françaises.* 2 vols. (Paris: Berger-Levrault. 1943; 1945.)

LAUFENBURGER. *Crédit public et finance de guerre.* (Paris: Médicis. 1944.)

——. *Précis d'économie et de législation financière.* (Paris: Sirey. 1941; 1943.)

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POSE. *La monnaie et ses institutions.* (Paris: Presses Univ. de France. 1942.)

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LANDRY. *Traité de démographie.* (Paris: Payot. 1945.)

PERIODICALS

Economic Theory; General Works

BONGRAS, E. *Remarques sur la théorie du capital en économie libre et en économie dirigée.* Schweiz. Zeitschr. f. Volkswirtschaft und Stat., June, 1945. Pp. 11.

CORNEJO, B. *La competencia imperfecta y la teorie tradicional.* III. Rev. Econ. y Estad., No. 4, 1944; No. 1-2, 1945. Pp. 25; 51.

DERVAUX, P. *Réflexions sur l'intérêt, l'épargne et l'investissement. A propos de la théorie générale de J. M. Keynes.* Rev. d'Econ. Pol., Mars-Dec., 1945. Pp. 29.

GOTTLIEB, M. *The theory of optimum population for a closed economy.* Jour. Pol. Econ., Dec., 1945. Pp. 28.

GUARESTI, J. J. *La economia politica.* Rev. de Ciencias Econ., Dec., 1944. Pp. 8.

HARRIS, A. L. *The scholastic revival: the economics of Heinrich Pesch.* Jour. Pol. Econ., Feb., 1945. Pp. 22.

HICKS, J. R. *Recent contributions to general equilibrium economics.* Economica, Nov., 1945. Pp. 8.

LACHMANN, L. M. *A note on the elasticity of expectations.* Economica, Nov., 1945. Pp. 6.

LEONTIEF, W. *The pure theory of the guaranteed annual wage contract.* Jour. Pol. Econ., Feb., 1945. Pp. 4.

OULÈS, F. *Le simili-rationalisme dans l'économie politique à apparence rationaliste.* Schweiz. Zeitschr. f. Volkswirtschaft und Stat., Juni, 1945. Pp. 30.

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SPENGLER, J. J. *The Physiocrats and Say's law of markets.* II. Jour. Pol. Econ., Dec., 1945. Pp. 21.

TINTNER, G. *A note on welfare economics.* Econometrica, Jan., 1946. Pp. 10.

UNTERBERGER, S. H. and HENIG, H. *Theory of wage control in the transition period.* So. Econ. Jour., Jan., 1946. Pp. 13.

Economic History

GRAMPP, W. D. *A reëxamination of Jeffersonian economics.* So. Econ. Jour., Jan., 1946. Pp. 20.

HAMILTON, E. J. *The first twenty years of the Bank of Spain.* I. Jour. Pol. Econ., Feb., 1946. Pp. 21.

MICHELL, H. *The impact of sudden accessions of treasure upon prices and real wages.* Canadian Jour. Econ. and Pol. Sci., Feb., 1946. Pp. 17.

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BAUDIN, L. *An outline of economic conditions in France under the German occupation.* Econ. Jour., Dec., 1945. Pp. 20.

CORCORAN, T. F. *Economic review of the Republic of Panama for 1943.* Estad., Sept., 1945. Pp. 12.

LEAK, H. and MAIZELS, A. *The structure of British industry.* Jour. Roy. Stat. Soc., Vol. CVIII, Pts. I-II, 1945. Pp. 66.

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MÁRQUEZ, J. *Libertad, planeación y Hayek*. El Trimestre Econ., Jul.-Sept., 1945. Pp. 15.

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Statistical Methods; Econometrics; Economic Mathematics; Accounting

KENDALL, M. G. *On the analysis of oscillatory time-series*. Jour. Roy. Stat. Soc., Vol. CVIII, Pts. I-II, 1945. Pp. 49.

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PATON, W. A. *Cost and value in accounting*. Jour. Accountancy, Mar., 1946. Pp. 8.

MAFFRY, A. *Inter-American standards and procedures in foreign trade statistics*. Estad., Sept., 1945. Pp. 4.

MILLER, W. W. *Standard costs and their relation to cost control*. N.A.C.A. Bull., Apr., 1, 1946. Pp. 11.

SANDERS, T. H. *A review of reviews of accounting progress*. Jour. Accountancy, Jan., 1946. Pp. 18.

TINTNER, G. *Multiple regression for systems of equations*. Econometrica, Jan., 1946. Pp. 32.

National Income and Product; Income Distribution; Consumption Statistics

GILBERT, M. and JASZI, G. *The 1945 White Paper on national income and expenditure*. Econ. Jour., Dec., 1945. Pp. 10.

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SIMS, L. B. and BEROLZHEIMER, J. *Tax yields and tax policy at the state level in the war-peace transition.* Bull. Nat. Tax Assoc., Feb.; Mar., 1946. Pp. 6; 5.

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SZATROWSKI, Z. *The relationship between price change and price level for common stocks.* Jour. Am. Stat. Assoc., Dec., 1945. Pp. 17.

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KRONSTEIN, H. and LEIGHTON, G. C. K. *Cartel control: a record of failure.* Yale Law Jour., Feb., 1946. Pp. 39.

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CHIANELLI, P. *El costo y precio del transporte ferroviario y su situación económico-financiera en los ejercicios de 1937/38 a 1941/42.* Rev. de Ciencias Econ., Enero, Feb., 1945. Pp. 28, 36.

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PARSONS, K. H. *Social security for farm people.* Jour. Farm Econ., Feb., 1946. Pp. 13.

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HEDGES, H. *Research developments in coöperative marketing.* Jour. Farm Econ., Feb., 1946. Pp. 6.

MURPHY, M. E. *Centenary of the British coöperative movement.* Jour. Marketing, Jan., 1946. Pp. 9.

Developments in the consumers' coöperative movement in 1945. Mo. Lab. Rev., Mar., 1946. Pp. 8.

NOTES

Editor's Note

Beginning September 15, 1946, the editorial office of the *Review* will return to McGraw Hall, Cornell University, Ithaca, New York.

Miss Mary Connally has resigned as assistant to the managing editor of the *Review* to become administrative assistant to the Executive Vice Chairman of the American National Red Cross.

It was hoped that, with the current issue of the *Review*, the difficulties with printing schedules would have disappeared and permitted appearance on the pre-war scheduled date of June 15. Unfortunately, the effects of the war were not yet so far liquidated as to make this possible. As soon as dependable printing schedules are restored, the date of publication will be brought forward to the first day of March, June, September and December, principally for the purpose of permitting advance notice of the annual meetings of the Association in the December number.

The following names have recently been added to the membership of the AMERICAN ECONOMIC ASSOCIATION:

Abraham, W., 520 Yale Station, New Haven, Conn.
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The Allied Social Science Associations are being served by the following officers during the present year:

American Accounting Association—Eric L. Kohler, 1 North La Salle Street, Chicago, Illinois, president; Ernest C. Davies, Northwestern University, secretary-treasurer.

American Association of University Teachers of Insurance—C. A. Kulp, University of Pennsylvania, president; Chester A. Kline, University of Pennsylvania, secretary-treasurer.

American Farm Economic Association—F. V. Waugh, United States Department of Agriculture, president; Asher Hobson, University of Wisconsin, secretary-treasurer.

American Finance Association—Harry Guthmann, Northwestern University, president; Neil Jacoby, University of Chicago, secretary-treasurer.

American Marketing Association—Lyman L. Hill, Evansville, Indiana, president; Harvey W. Huegy, University of Illinois, secretary.

American Sociological Society—Carl C. Taylor, United States Department of Agriculture, president; Conrad Taeuber, United States Department of Agriculture, secretary.

American Statistical Association—Isador Lubin, United States Department of Labor, president; Lester S. Kellogg, 1603 K Street, N.W., Washington 6, D.C., secretary-treasurer.

Econometric Society—Jacob Marschak, University of Chicago, president; Alfred Cowles, University of Chicago, secretary-treasurer.

Rural Sociological Society—Paul H. Landis, Washington State College, president; Leland B. Tate, Farm Foundation, secretary-treasurer.

Two Sarah Frances Hutchinson Cowles Fellowships for women will be awarded by the University of Chicago for the academic year 1947-48 upon nomination by the Cowles Commission for Research in Economics. Applicants must be students of outstanding promise, preparing for the degree of master or doctor in the field of social sciences and statistics, preferably in quantitative economics or mathematical statistics. The Fellowships amount to $1000 each, but may be supplemented by an additional grant of $500.

The Economic and Social Council of the United Nations in February, 1946, established a Statistical Commission with general responsibilities for assisting the Council in coördinating the statistics which will be required from member governments and developing the central statistical services of the Secretariat. The Council elected the following persons as initial members of the Statistical Commission: H. Campion (United Kingdom), head of the Central Statistical Office of the British Cabinet; M. G. Jahn (Norway), president of the Bank of Norway; M. A. Teixera de Freitas (Brazil), secretary general of the Brazilian Institute of Geography and Statistics; P. C. Mahalanobis (India), Statistical Laboratory,

Presidency College, Calcutta; Stuart A. Rice (United States), assistant director of the Bureau of the Budget in Charge of the Division of Statistical Standards; and Professor Alfred Bernard Sauvy (France). Three other initial members of the Commission are to be designated by members of the Council for China, Ukraine and the U.S.S.R.

Gilbert H. Barnes died on August 12, 1945.

Alva H. Benton of the Bureau of Agricultural Economics, Washington, D.C., died in November, 1945.

Thomas F. Conway died on November 9, 1945.

Joseph Gordon died on October 12, 1945.

Eugene A. Heinmann died on November 11, 1945.

H. John Stratton died on August 12, 1945, while on leave from Illinois College. He was serving the New England office of the Office of Price Administration as regional economist at the time of his sudden death.

Orlando F. Weber died September 6, 1945.

Appointments and Resignations

William H. Andrews, formerly of Purdue University and recently discharged from the Navy, joined the staff at Indiana University as instructor in economics in June, 1946.

Harold B. Baker has resigned as assistant professor of management at Indiana University and is now at General Motors Institute as assistant to the director and head of the business administration division.

Everett Clair Bancroft of the economics department of Colgate University was given a leave of absence from the beginning of November through February to serve as economic consultant to the State of New York Department of Commerce and, on his return to the university, will continue his relations with the State Department of Commerce.

Robert B. Bangs has resigned from the Department of Economics, Indiana University, and returned to the Bureau of Foreign and Domestic Commerce.

Robert J. Baxter, assistant professor of finance in the School of Business Administration at the University of Pittsburgh, has resigned.

Richard F. Behrendt was promoted from associate professor to professor of international affairs at Colgate University.

J. N. Berretoni, formerly instructor at the University of Minnesota, has been appointed assistant professor of statistics at Iowa State College.

Francis M. Bird, professor and head of the department of commerce in the College of Engineering and Commerce, University of Cincinnati, was appointed dean of the university's new College of Business Administration on March 1, 1946.

Robert L. Bishop has been promoted to the rank of assistant professor of economics in the Department of Economics and Social Science at the Massachusetts Institute of Technology.

Harry C. Bredemeier has been appointed instructor in sociology at Princeton University.

Douglas S. Brown has resigned as instructor of economics at Temple University to accept an appointment as assistant professor of economics at Pennsylvania State College.

Douglass V. Brown of the Industrial Relations Section at the Massachusetts Institute of Technology has been appointed Sloan professor of industrial management in the department of business and engineering administration.

P. S. Brown of the Department of State conducted courses in the department of economics of the University of Michigan during the 1946 summer session.

J. Murray Carroll, professor of economics, will be on leave from Bates College during the second semester.

Joseph Carwell has been appointed chief of economics for the UNRRA mission in Shanghai.

Francis R. Cella was separated from the Army in December and is now director of the research bureau and head of the statistical department at the University of Oklahoma.

Arthur Claydon is teaching in the department of economics at Syracuse University.

William H. Conley has accepted an appointment as dean of the School of Commerce, Loyola University, Chicago.

M. C. Cravens, formerly of Cornell University, has been appointed assistant professor in agricultural economics at Michigan State College.

Raymond E. Crist, formerly of the Institute of Tropical Agriculture, Mayaguez, Puerto Rico, has joined the staff of the College of Business and Public Administration, Department of Natural and Human Resources, University of Maryland, as professor of geography of Latin America.

Ernest A. Dauer has returned to the Federal Deposit Insurance Corporation, Washington, D.C., where he is principal economist in its division of research and statistics, after three years' active duty with the Navy.

Pearce Davis, formerly assistant wage stabilization director of the National War Labor Board and later chairman of the National Telephone Commission, has been appointed chairman of the department of business and economics at Illinois Institute of Technology.

E. D. Domar, who has been connected with the Board of Governors of the Federal Reserve System, conducted courses in the department of economics at the University of Michigan during the 1946 summer session.

Walter A. Durham, Jr., is now engaged as director of research for the Lumberman's Industrial Relations Committee, Inc.

Walter P. Egle has resigned his position at Ohio State University to accept a professorship at the University of Cincinnati.

Walter L. Eisenberg, formerly executive secretary of the Second Regional Trucking Panel and a member of the staff of the wage stabilization director of the Second Regional War Labor Board, has been appointed to a senior assistantship in the department of economics of the School of Commerce, Accounts and Finance of New York University.

J. Harold Ennis, professor of sociology, Cornell College, Iowa, conducted courses in the department of economics at the University of Michigan during the 1946 summer session.

Grover W. Ensley has returned to his position as senior fiscal analyst in the Bureau of the Budget after separation from the Navy where he served with the rank of Lieutenant (j.g.) as Control Group Officer, Ordnance Supply Branch, in Guam.

George Farmer is now instructor of business administration at West Virginia University.

Paul Fisher has been appointed assistant professor of economics at Dartmouth College.

Cleo Fitzsimmons has resigned her position at the University of Illinois and is now professor and head of home management in the School of Home Economics in Purdue University.

John H. Frederick, formerly of the University of Texas, has been added to the staff of the College of Business and Public Administration, University of Maryland, as professor of transportation and foreign trade.

S. H. Frankel is vacating his chair of economics and economic history at the University of the Witwatersrand in order to take up an appointment to the chair of colonial economic affairs at Nuffield College, Oxford.

John Dean Gaffey has been named district price economist of the Los Angeles office of the Office of Price Administration.

George C. Grosscup completed his war service as Captain in the Army Air Corps and will join the department of economics at the University of Vermont as assistant professor.

Harold W. Guest has resumed his duties at Baker University after teaching at the Army University in Biarritz and lecturing in Germany.

David B. Hamilton has been appointed instructor in economics in the School of Business Administration of the University of Pittsburgh.

Wesley J. Hansen, recently discharged from the Navy after 27 months' duty, has become associated with the Brentwood Egg Company, Washington, D.C.

Clifford M. Hardin has been promoted from associate professor to professor in agricultural economics at Michigan State College.

C. Lowell Harriss has resumed his teaching of economics and contemporary civilization at Columbia University after five years' service in the Division of Tax Research of the Treasury Department and with the Army Air Forces on various phases of procurement.

Penelope C. Hartland has been appointed instructor of economics at Brown University.

Gabriel S. Hauge, an instructor in economics at Princeton University when he joined the Navy in January, 1942, was discharged in December, 1945, and is now at Harvard University on a Social Science Research Council Demobilization Award.

Harry Henig, after war service with the War Labor Board and at the Army University abroad, has resumed his work at the University of Cincinnati with the rank of associate professor.

William W. Hewett of the University of Cincinnati served as a member of the faculty of the Institute of International Relations held at Antioch College during July.

John Hope, II, after two years as Fair Practice Examiner, Atlanta Regional office of the FEPC while on leave from Atlanta University, on October 1, 1945, joined the Social Science Institute, Fisk University, as specialist on industrial relations to organize a section concerned with minorities problems in industry and labor organizations.

Hervey D. Hotchkiss, who recently returned from teaching in the American University at Biarritz, France, has been discharged as a Lieutenant Colonel and is now teaching at the College of the City of New York and at New York University.

E. Jay Howenstine has been associated with the Office of Price Administration as adjustment analyst.

Simeon Hutner has recently served as a part-time assistant in economics in Princeton University.

J. Hugh Jackson, professor of accounting, and dean of the Graduate School of Business, Stanford University, has been appointed Dickinson lecturer at Harvard University for the academic year 1946-47.

David R. Jenkins has recently returned from work in Japan and China as economic advisor to the U. S. Reparations Mission, and has resumed work in the Division of Monetary Research of the Treasury Department.

E. A. J. Johnson has resumed his duties as professor of economic history at New York University after war service as Lieutenant Colonel. As chief of the economics branch of the Allied Land Forces in Norway, he was the first American to enter Norway, having been attached then to the 1st (British) Airborne Division. He was decorated with the Cross of King Haakon VII, the Bronze Star and the Order of the British Empire.

B. M. Joffe has been elected executive director of the National Wage Stabilization Board, Washington.

Matthew A. Kelly of Princeton University has been promoted to the grade of assistant professor.

C. J. Kennedy has been appointed assistant professor of economics at the University of Nebraska for the coming year.

Maurice Kirsch has been appointed instructor of accounting at West Virginia University.

Albert Lauterbach of Sarah Lawrence College is teaching also in the Graduate Division of Brooklyn College.

Ben W. Lewis, professor of economics at Oberlin College, conducted courses in the department of economics of the University of Michigan during the 1946 summer session.

Raymond H. Lounsbury has been appointed assistant professor of economics at Dartmouth College.

Arthur F. Lucas, who has been absent on leave for war service since 1943, will return

to his position as professor of economics and sociology at Clark University for the year beginning September, 1946.

Samuel Lutzker, formerly with the U. S. Employment Service as research assistant, is now employed as a senior economist with the New York State Division of Housing.

Edward B. Malloy has been appointed instructor in accounting in the School of Business Administration of the University of Pittsburgh.

Fritz Karl Mann, professor of economics and public finance at American University, has been invited by the University of Cologne through the British Military Government to reoccupy his former chair in the department of economic and social sciences which in 1935 he had to give up under nazi pressure. Since he plans to continue serving this country, he has declined the invitation.

Theodore F. Marbury has been appointed instructor in economics in Princeton University.

Donald B. Marsh will be on a leave of absence from Barnard College during the academic year 1946-47, but will continue his association with the department of finance and business research of the Chase National Bank.

Edgar W. Martin in the fall will assume new duties as professor and head of the department of economics at Illinois College.

Will E. Mason was an instructor in economics in Princeton University during the summer term of 1946.

James A. Maxwell, on leave from Clark University for governmental work since 1942 and most recently as economic consultant in the Department of State, will return to his position as professor of economics in September, 1946.

J. M. McDaniel, Jr., has resigned as professor of economics at Dartmouth College to continue in government work with the Department of Commerce, Washington.

William J. McLarney, formerly of the faculty of Iowa State College, has joined the faculty of the College of Business and Public Administration at the University of Maryland as associate professor of industrial administration.

Sidney L. Miller, formerly head of the transportation department at the University of Iowa, is now professor and head of the department of transportation in the School of Business Administration of the University of Pittsburgh.

Lloyd G. Mitten, head of the department of economics at Olivet Nazarene College, was visiting lecturer in economics at Indiana University during the past summer session.

Eduardo Montealegre is working as an advisor to the Ministry of National Economy of Guatemala.

Theodore Morgan has been appointed an instructor in the department of economics of Harvard University for the year beginning July 1, 1946.

J. E. Morton of the National Bureau of Economic Research is joining the faculty of Cornell University.

Charles A. Myers has been promoted to the rank of associate professor of industrial relations in the department of economics and sociology at the Massachusetts Institute of Technology.

John H. Myers has been appointed assistant professor of business statistics in the School of Commerce of Northwestern University.

Ruby Turner Norris, who has been serving as chief economist for the Office of Price Administration in Honolulu during the war, will return to her position as assistant professor of economics at Vassar College in the fall.

Bert E. O'Beirne has been promoted from instructor to assistant professor in economics at Michigan State College.

Andreas G. Papandreou has been appointed an instructor in the department of economics at Harvard University for the year beginning July 1, 1946.

Clyde William Phelps, head of the department of economics in the University of Chattanooga, has been commissioned by the Board of Directors of the National Retail

Credit Association to prepare an official handbook on credit granting for the association.

Addison Pond is in the investment research section of the National Life Insurance Company following his discharge from the Army Air Forces as a Lieutenant Colonel and after two and a half years' service as chief of personnel and operations of the Air Forces Reinforcement Command in Europe, for which he was awarded the Legion of Merit, the Bronze Star and the French Croix de Guerre with Palm.

Charles Prince resigned his position as Soviet Russian expert of the Chamber of Commerce of the United States to accept a similar assignment on the editorial staff of *World Report*.

Harry L. Purdy has resigned his position as professor of economics at Dartmouth College to continue his work as assistant director of research for the Missouri Pacific Railroad.

Daniel W. Raaf, formerly instructor of economics at Lafayette College, has been appointed instructor of economics at Brown University.

Joseph S. Ransmeier has been appointed assistant professor of economics at Dartmouth College.

C. J. Ratzlaff, formerly head of the economics department of Lafayette College and recently with the U. S. Tariff Commission, has joined the faculty of the College of Business and Public Administration of the University of Maryland as professor of international finance and economic relations.

Raymond de Roover has resigned his position at Oberlin College to return to Wells College with the rank of associate professor of economics.

George Rosen has been a part-time assistant in economics at Princeton University.

Myron Rosenfield has accepted a position with the Continental Converters Corporation as economic analyst.

Richard F. Ruggles has been appointed an instructor in the department of economics of Harvard University for the year beginning July 1, 1946.

Arnold W. Sametz has been a part-time assistant in economics in Princeton University.

Richard Scheuch has been a part-time assistant in economics in Princeton University.

Arthur Schweitzer of the University of Wyoming has been promoted to associate professor.

I. L. Sharfman, chairman of the department of economics at the University of Michigan, served on the emergency board established under the Railway Labor Act with reference to wages of railway express employees.

Harold W. Smart will resume his duties in September as assistant professor of economics at the Massachusetts State College, after a two years' leave of absence.

Arnold W. Soloway has been appointed part-time instructor of economics at Brown University.

William A. Spurr, formerly a Lieutenant Commander in the Navy, has joined the staff of the University of Chicago School of Business as associate professor of statistics.

George J. Stigler, formerly professor of economics at the University of Minnesota, has been appointed professor of economics at Brown University.

Merton P. Stoltz has been promoted from assistant professor to associate professor of economics at Brown University.

Milton C. Taylor, formerly of the University of British Columbia, has been appointed as graduate assistant in economics at Michigan State College.

Arthur P. L. Turner is now with the Bank of the Manhattan Company, after completing his wartime assignment with the Treasury Department and upon resignation from Montana State University.

John V. VanSickle, research professor of economics at Vanderbilt University, has accepted the position of chairman of economics at Wabash College, Indiana.

Jacob Viner has been appointed professor of economics at Princeton University.

Charles Walsh has resigned his position as chief of the Office of Export-Import, Office of Price Administration, Washington, to resume his duties as assistant professor of economics at the Graduate School of Fordham University.

William N. Watson is at present with the Department of State in London.

George W. Westcott will return in September to his position as extension specialist in the department of agricultural economics at the Massachusetts State College.

James M. Whitsett has returned to his position as associate professor of banking and finance at Western Reserve University after serving as a Major in the Army Air Forces at Wright Field.

Edmund Whittaker, formerly associated with Brown University and the University of Illinois, has joined the staff of Indiana University as professor of economics.

John A. Wolfard, after three years' active duty in the Supply Corps of the Navy, has been appointed assistant professor of economics at Montana State University.

Nathaniel Wollman, assistant professor of economics at Colorado College, was a visiting lecturer, in economics at Indiana University during the past summer session.

James R. Young, formerly a Lieutenant in the Navy and on leave of absence from Centre College, has joined the staff at Indiana University as instructor in economics.

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